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Part C

Specific current questions

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PART 2

PART C

SPECIFIC CURRENT QUESTIONS

1. Military (non-technical)

2. Political

3. Politico-Economic

Note:

The material included in this section was prepared by officers dealing with these matters in the interested geographical divisions of the Department and is intended primarily to furnish factual background regarding specific current questions which might come up for discussion with the British. Unless otherwise indicated, the views expressed represent present thinking at the operational level rather than agreed Departmental policy.

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C. SPECIFIC CURRENT QUESTIONS

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C. SPECIFIC CURRENT QUESTIONS

1. Military (non-technical)

a. Bases:

1) Egypt

For reasons of regional security and stability we desire British troops to remain in the general area. Since under conditions of modern warfare troops in the Suez Canal area can no longer be considered to constitute an adequate defense of the Canal, since their evacuation is ardently desired by the Egyptians and since their continued presence might prove to be a liability rather than an asset from the point of view of possible Russian aggression, we hope they can be removed elsewhere in the area at an early date. We could not consistently, however, press for an evacuation until another major base, such as Cyrenaica, is made available. The Egyptian base is now used as the chief supply center for British troops in Greece and Palestine. It would be wise, however, to have the troops in Egypt reduced to the numbers provided for in the 1936 Treaty. It is understood that this reduction has already begun.

Letters on the subject of British troop evacuation from Egypt and the possible use of Cyrenaica as a substitute base, were addressed by the Department of State to the Departments of the Army and Navy on September 18 (Enclosure # A 1.) On September 26 the Secretary of the Navy expressed agreement that this subject should be discussed in the proposed talks with the British on over-all policy in the Middle East. In so doing, the Secretary pointed out that the Navy Department considered it of the utmost importance that the United States and other nations of the Western world should continue to have access to the resources of the Middle East and to have the use of sea communications through the Mediterranean. This made it essential that neither the Straits of Gibraltar or Suez should pass under the control of any power unfriendly to the United States and that forces friendly to the United States

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should be.

should be able effectively to control those two positions, which would be of vital importance even if sea communications through the Mediterranean were restricted. On September 29, the Secretary of the Army, with the concurrence of the Secretary of the Air Force, observed that Cyrenaica would probably be the best base to which British troops might be withdrawn in the event of their evacuation of Suez, but expressed the opinion that a final conclusion on this subject could not be reached without consideration of the over-all Mediterranean situation.

2) Cyrenaica:

See foregoing.

3) Transjordan:

There would appear to be no objection to the establishment of a British base in this area since Transjordan is in treaty relationship with Great Britain permitting the stationing of British troops in that country.

4) Kuwait:

The British have indicated to us tentative plans for the establishment of an important base in Kuwait, possibly in conjunction with Iraq, and seem to feel that such a project could be carried into effect without serious opposition on the part of Saudi Arabia, despite the strong feeling between the ruling house of that country and that of Iraq. On the assumption that a satisfactory arrangement of this potential difficulty can be made, there would seem to be no reason to object to establishment of a British base in Kuwait, particularly since that state is under British protection.

5) Iraq:

The British evidently hope that current Iraqi agitation for treaty revision which would carry with it the loss of British base rights in Iraq may be met by the proposed sharing of the proposed Kuwait base. Assuming that such an agreement could be amicably reached and

appropriately

appropriately covered by treaty arrangement, there would seem to be no reason for objection by the United States Government.

6) Palestine:

It is our understanding that the British do not contemplate retaining a military base in Palestine beyond the termination of their political responsibility.

7) Cyprus:

The value of Cyprus as a military, naval, and air base is a matter for military determination. From the political point of view the fact that the great majority of Cypriots are of the Greek race and apparently desire Cyprus to be united with Greece, is worthy of notice. It may be observed, however, that in areas such as this where the number of people affected is small and the strategic importance great, the latter consideration is often prevailing.

b. Military Missions and Military Assistance:

1) Egypt:

In August the Prime Minister of Egypt, without any reference to the 1936 Treaty, requested the Acting Secretary and the Secretary of the Army to send Military experts to Egypt to assist in strengthening the military establishment. He was informed that no commitments could be made at present owing to the lack of enabling legislation. The Acting Secretary advised against the employment by Egypt of reserve officers but suggested that the Prime Minister might consider the advisability of inviting civilian engineers to advise the Government of Egypt regarding the setting up of appropriate war industries in support of a military establishment.

2) Syria:

Some time ago the Department discussed with British Embassy officials a request of the Syrian Government for an American military mission to train the Syrian Army. The Syrian request was not complied with, in view of the opposition of the French Government and our desire not to offend it, also because of the

 absence

absence of legislation which would permit the delegation of U.S. military personnel beyond the formal termination of the war.

3) Saudi Arabia:

There are approximately 75 United States Army officers and men at Dhahran today maintaining and operating the airport and carrying on a program to teach the Saudi Arabians to take over this field. King Ibn Saud is anxious that his people learn how to operate airports and, because of the backwardness of the Saudi Arabians in such matters, it is likely that this mission will have to stay in Saudi Arabia for a good many years to come.

BOAC is now flying into Dhahran and has requested servicing in the form of lodging, meals, and maintenance and service of planes. The British have been told that the United States Army is not in position to provide these services, but that the British can continue to use the airport if they provide the services themselves. Air France and KLM have similarly been advised. It is clear that the Saudi Arabian Government must take steps to organize these services, in order that the Dhahran Airport may be used to the fullest.

A small British military mission is stationed at Taif, Saudi Arabia, and is giving infantry training.

4) Iran:

The only military missions in Iran are the two from the United States — one to the Iranian Army and one to the Iranian Gendarmerie, both of which, if present negotiations are satisfactorily concluded, might be effective until 1949. The U. S. has approved an FLC credit of twenty million dollars to Iran for the purpose of buying surplus combat and

other

other supplies for the Iranian Army and Gendarmerie. Implementation of that credit is subject to the approval of the Iranian Parliament in the near future. Continuance of the U. S. military missions is contingent upon (1) passage of the Military Missions Bill by the U. S. Congress, and (2) willingness of the Iranian Government to recognize the usefulness of those missions by accepting their recommendations. Extension of the contemplated military material assistance to Iran now depends upon action by the Iranian Parliament. A favorable vote would be expected under normal circumstances, but there is a possibility of rejection in present circumstances as a gesture of propitiation to the Russians in the event that the Soviet oil agreement is not approved.

While the British have no special military missions in Iran, certain British air officers do train the Iranian Air Force in the use of British planes which at present constitute the entire complement of Iranian Army aircraft. A problem has arisen concerning the relative functions of the British aviation instructors and the U.S. aviation advisers attached to the mission to the Iranian Army. It is suggested that, in view of the over-all responsibilities of the U.S. Military Mission concerning organization and administration of the Iranian Army, the British Government direct their aviation instructors to coordinate their training with American direction of Iranian Army administration. The question of the training of Iranian pilots in the use of such American planes as may be acquired has also arisen, and consideration is now being given the relative merits of training in the United States and providing facilities for training in Iran on a continuing basis.

5) Turkey:

Under authority of the Greek-Turkish Aid Bill of May 22,1947, the United States is furnishing Turkey military and naval equipment to the value of approximately $100,000,000.

Virtually

Virtually all of this will be provided as a gift. The Turkish Government has just made an informal request for an additional $100,000,000, primarily to cover anticipated military expenditures in the year 1948. We have little information as to the basis of this request and are doubtful of its justification. However, there is no doubt that the proper equipment and organization of the Turkish armed forces on a modern basis would require at least another $400,000,000, as reported by the American Survey Mission which visited Turkey in the first part of the past summer.

A U.S. Army-Navy-Air group will shortly go to Turkey to instruct the Turks in the use of the new equipment being furnished.

There is a small number of British Army, Navy and Air personnel in Turkey to give instruction in certain specialized fields.

(See page 7a)

6) Greece:

Of the total $300,000,000 allotted to Greece under the Greek-Turkish Aid program, $138,000,000 has been earmarked for military expenditures. Some 25,000 tons of all types of military goods have arrived in Greece and an additional 30,000 tons are either en route or being loaded in U.S. ports. As some Greek Army equipment, particularly ordnance, is largely British, U.K. material continues to be sent to Greece. Since May 22, 1947 this material from the U.K. has been paid for by the U.S.

U.S. Army and Navy officers are furnishing advice to the Greek Army on logistical questions. Consideration is being given to the possibility of Americans furnishing operational advice to the Greek Army. A decision in this matter awaits General Chamberlin's recommendations.

The British Military Mission has been operating since November 1944 for the purpose of training and organizing the Greek Army. The expenses of the Mission are

* The Turkish Government has requested our estimate of the international situation, with special reference to the Soviet Union and Turkey, to assist it in deciding whether or not to release one of the three classes now mobilized in the Turkish Army. Release of a class without replacement would reduce the size of the Army from about 485,000 men to about 330,000 men. It would effect a substantial saving in the national budget and would also release much needed manpower for productive work, but the Turks are hesitant because they fear it would encourage the Russians to put pressure on them and might discourage the Greeks and other peoples now being subjected to Soviet pressure.

We propose to inform the Turks that we do not consider war imminent and do not believe that the reduction in Turkish forces would materially affect the Soviet course of action towards Turkey. We intend to suggest, however, that the reduction be handled in such a way as to give the impression that it is merely a reorganization of the Turkish armed forces and to demonstrate that there is no change in Turkish foreign policy or Turkish determination to resist any attack.

The Turks have made the same request of the British Government which has, independently, arrived at substantially the same views as our own. The British, however, intend to present their views to the Turks in the form of direct advice whereas we plan merely to give our estimate as a matter of information with the specific reservation that the Turks must make their own decision. The Department of the Army is in accord with our position.

borne entirely by the British and Mr. Bevin has given his assurance that the Mission will remain until its task is finished. The Chief of the Military Mission, General Rawlins, is a member in an advisory capacity of the Greek Supreme Military Council. We feel that this Mission is performing a very useful work in spite of the fact that, according to an unofficial advice, we believe its strength has diminished considerably from the original figure of approximately a thousand men and officers, and in spite of the fact that British prestige and authority have been considerably eclipsed by the inauguration of the U.S. Aid Program. We think it important that the Greek Army not be subjected to further changes in organization and system and that therefore the British be encouraged to continue.

An agreement regularizing these relationships is currently under consideration in Athens and the British have requested our views on a proposed joint directive to serve as guidance in the drafting of this agreement. The American Embassy in Athens and AMAG consider present informal arrangements adequate and believe that the proposed agreement and directive imply wider U.S. responsibilities than we are now prepared to accept. No final decision will be taken by the United States on this matter or other Greek matters of a military nature until General Chamberlin's recommendations have been received.

7) Ethiopia:

The only formal military mission functioning in Ethiopia at the present time is the British military mission, which is training the Imperial Army. At the beginning of August, there were indications that the mission might be materially reduced in size, in connection with overall British plans to reduce British forces in the Middle East. However, the decision to reduce the size of the mission has now been indefinitely postponed, probably because of the uneasy situation among the tribesmen in the South of

 Ethiopia,

Ethiopia, against whom the Imperial Army is now engaged in operations.

Although they are not members of military missions in the proper sense of the term, a number of Swedes have been employed by the Ethiopian Government to train the Imperial Guard and the Imperial Air Force. In addition, British officers have been retained to train the Ethiopian police.

The United States Government has not furnished any arms or munitions to Ethiopia since the cessation of lend-lease. However, several indications have been received from the Ethiopian Government of a desire to obtain such equipment in the United States, including an inquiry regarding full equipment for a motorized division, which was summarily dropped when an estimate of cost was furnished. Recently, a list of equipment which the Ethiopian Government desired to secure for the purpose of maintaining internal law and order was submitted to the Department, and the purchase was approved by the Arms Policy Committee on a non-priority basis.

Following this Government's approval of the sale of these arms and munitions to Ethiopia, it was reported by Ethiopian sources that the Soviet Government had offered to make a gift of certain quantities of arms, munitions and other material of war, including heavy equipment, to the Ethiopian Government. The Department is now studying the possibility of indicating to the Ethiopian Government that any sale of U.S. arms to it would be conditional on the refusal of the Soviet offer.]

c. Arms Policy:

Because of the special circumstances arising out of the British position in the Middle East and unsettled political conditions,

with particular

with particular reference to Palestine and the Saudi-Hashemite feud, it has been the general policy of the United States to refrain from authorizing the export of arms to countries in the Middle East beyond such material as might properly be required for the preservation of internal security. The only exceptions to this have been countries under threat of Soviet or Soviet-inspired aggression. It is suggested that this policy should be reviewed in the light of such recommendations as may be made regarding the over-all strategic requirements of the area.

d. Central African Road:

The uncertainties of the British position in the Eastern Mediterranean have led the British to cast about for alternate sites for military bases in the Middle East. Some twelve months ago, reports were received in the Department that Kenya Colony was among possible locations which were being considered. While it is believed that from a strategic point of view Kenya is too far from the Mediterranean and the Suez Canal Zone to be a satisfactory operational base, it has many advantages as a supporting base. Kenya is a Crown Colony and is, therefore, reasonably secure from political complications such as nationalist disturbances. For this reason, it would be fairly safe for the British Government to base future long-range plans on the use of Kenya Colony. Kenya has areas of undeveloped land, with a variety of terrain types, which would be ideal for training and maneuvers. Also, the climate is very satisfactory. Mombasa, which was used to a limited extent as a naval base during the last war, has a good harbor which could be expanded. Its greatest drawback is, perhaps, communications. If the Mediterranean route could not be kept open, in the event of another war, it would be necessary to supply a base in Kenya largely by sea around the Cape of Good Hope. The British Government, however, in giving consideration to plans for creating road, rail,

air

air, and communication links across Central Africa from Nigeria, on the West Coast to Kenya on the East Coast. The present status of these plans is not known. British troops and material, however, have recently been moved to Kenya from India. Conversations are reported to have been held between British and French representatives to discuss proposals for connecting Kenya Colony by air lines, railroads, and highways with the British and French territories on the West Coast of Africa. One possible route would be from Lagos, in Nigeria, across the French Cameroons, French Equatorial Africa, the Anglo-Egyptian Sudan, and Uganda, to Mombasa, in Kenya Colony. If French cooperation is obtained, the route might be extended to Dakar, in French West Africa, where it is believed that France is planning to enlarge its air and naval facilities.

C. 2. POLITICAL QUESTIONS

a) Problems Involving a Threat to the Peace

1) Greece
2) Turkey
3) Iran
4) Afghanistan
5) Palestine
6) French North Africa

b) The Communist Problem

1) Greece
2) Turkey
3) Iran
4) Syria and Lebanon
5) Iraq
6) Egypt
7) Saudi Arabia
8) Palestine
9) Ethiopia
10) French North Africa

c) Internal Political Situations

1) Greece
2) Turkey
3) Iran
4) Arabian Peninsula
5) Ethiopia
6) Afghanistan
7) Other Middle Eastern Countries
8) French North Africa

d) Special

d) Special British Treaty Relationships

1) Arabian Peninsula
2) Iraq
3) Egypt

e) British Middle East Office

f) Cultural and Informational Activity

g) The Turkish Straits

h) The Palestine Question

i) The Arab League

j) Transjordan

k) Greater Syria

l) The Egyptian Question

m) Disposition of the Italian Colonies

1) Lybia
2) Eritrea
3) Italian Somaliland

n) Britain and American Payments to the Iranian State Railways

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2. Political Questions

a. Problems Involving a Threat to the Peace

1) Greece:

The threat to the peace arising out of the assistance being given Greek rebels by Albania, Bulgaria, and Yugoslavia is obvious. The gravest danger here is that a so-called "Free Greek Government" may be established on a sufficient scale to permit the three northern countries, and possibly the Soviet Union and its other satellites, to recognize it and support it in a full-scale civil war. If the United Nations is unable to prevent this, the result could easily be something much more serious even than the Spanish Civil War of 1936-1939. The attached letters, dated
A 2 & 3 July 11, 1947 and July 12, 1947, addressed to the Chief of the American Mission for Aid to Greece, indicate the nature and scope of the assistance which we are currently rendering in order to maintain the independence and integrity of Greece.

2) Turkey:

In Turkey there is a real, but temporarily quiescent, threat to the peace arising out of the efforts of the Soviet Union to obtain a dominant position in the Straits and to annex portions of eastern Turkey. The last Soviet move in this direction was made in the late Summer of 1946, but it may be expected that further efforts will be made whenever the USSR considers the moment propitious.

3) Iran:

Iran is under recurrent Soviet pressure which may at any moment develop into a threat to the peace of utmost gravity. At the moment, this pressure is directed toward obtaining ratification of an agreement whereby the USSR would in effect obtain an oil concession covering the greater part of the Iranian provinces adjacent to the Soviet Union. The Russian Ambassador in Tehran

has threatened that if this agreement is rejected by the Iranian Parliament, the USSR will consider Iran as a "blood enemy". Soviet action to implement this threat may include the fomentation of guerrilla activities directed against the Iranian Government along the lines of the Greek rebel operations. Dissatisfied tribes and other minorities would probably be utilized. A coup d'etat against the ruling dynasty is not altogether improbable.

The Joint Chiefs of Staff consider that Iran is an area of major strategic interest to the United States and that this interest would be adversely effected by Soviet domination of any part or all of Iran. (Questions Projected by the Department, Sep. 26, 1946 and Joint Chiefs of Staff Answers dated Oct. 12, 1946). The Department feels that the granting of any kind of oil concession to the Soviet Union would seriously endanger the future independence and integrity of Iran. (Deptel 487 to Tehran, August 13, 1947). Should Soviet interference in the internal affairs of Iran lead the Iranian Government to reactivate its case before the Council, the Department is prepared to continue its future support of Iranian independence. (Deptel 434 to Tehran July 29, 1947).

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4) Afghanistan:

A lesser development which might prove to be a threat to the peace is the current dispute between Iran and Afghanistan over the waters of the Helmand River. The Iranians claim that the Afghans are diverting water from the River, thus leaving the farms of one section of eastern Iran without the necessary water for irrigation. Although this dispute should be susceptible of adjustment, the excitable attitude adopted by the Iranian Government might make it more serious than the facts and issues would warrant.

We were recently informed that the Iranian Government had instructed its Delegation to bring this matter before the United Nations. Our influence has been used with apparent success to dissuade the Iranians from this action and we recently instructed our missions at Tehran and Kabul to suggest that this matter be referred to their representatives in Washington for informal discussion with a view to evolving constructive recommendations for a reasonable settlement. We offered to be of any possible assistance in furthering such a solution.

Afghanistan has also become involved in certain difficulty with Pakistan over the future status of the Pathan population in the Northwest Frontier area. The Afghans have maintained that they have no aspirations for hegemony over these people but maintain that they should be given a free choice regarding their future status. We have indicated to both sides our hope that this matter can be settled in a spirit of good neighborliness.

5) Palestine:

Palestine also presents a grave security problem as the trend develops toward extremism on both the Arab and Jewish sides. This matter is discussed further under a following heading.

6) French North Africa:

French North Africa is important to the security of the US primarily because of its strategic geographical position, flanking US routes to Eastern Mediterranean oil as well as Great Britain's Mediterranean lifeline. A North Africa friendly to the United States and the Western Powers would, in the event of military action in the Middle East, contribute greatly to the security of the militarily important eastern Mediterranean area.

The security of the area is at the present time maintained by France. France's

position there, however, is not firm. The aspirations of the Nationalists for independence and the machinations of the Communists, combined with the inability of France to conceive and implement a policy designed to solve the major political problems there, cast considerable doubt on the security of French North Africa in the future. If France herself comes under Communist control, it is highly probable that French North Africa will also. If the countries of French North Africa gain independence abruptly, there is grave danger that they would soon come under at least indirect Communist control, unless the US intervened directly and drastically to prevent it.

The only apparent solution to the problem is for the Government of a non-Communist France to come to an agreement on a modus vivendi between the peoples of France and North Africa. Without doubt this agreement will have to be based on a realistic appreciation of the fact that, in the not too distant future, the countries of North Africa will be largely independent.

Comment:

A review of all of these matters with the British would be advisable in order to make certain that our efforts are properly concerted in preventing these difficulties from becoming more serious. Thought should also be given to action which would be taken in the event that any of these problems should get out of hand.

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b. The Communist Problem

1) Greece:

In Greece the Communist Party is strong and aggressive, though not represented in the Parliament because of its deliberate refusal to participate in the Elections of March 1946. The Party is almost openly supporting the guerrillas. There can be no question that its leaders are in direct contact with the Communist leaders in Bulgaria and Yugoslavia and that they are making every effort to overthrow the Greek Government. The Communists are active in the labor union field but have not as yet been able to dominate it. American efforts to combat Communist activities in Greece include the provision of supplies to the Greek Army for use in fighting the guerrillas, the provision of relief and reconstruction supplies to bolster up the Greek economy, and diplomatic efforts to guide the Greek Government on a middle course between ruthless repression of the Communists and the fatal policy of compromise or collaboration. A further step would be guidance and assistance to the Greek Government in an information campaign to counter the incessant Communist propaganda.

2) Turkey:

In Turkey the Communist Party is illegal and Communist activity is negligible.

3) Iran:

In Iran there is no Communist Party, and the Communist influenced "Tudeh" Party has lost the greater part of its influence since the overthrow of the puppet government in Azerbaijan last December. The "Tudeh" has no representation in the new parliament and has lost its hold on the labor unions except in the southwestern corner of the country where the Anglo-Iranian Oil Company operations are located. However, should the Iranian Government change its present

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attitude of opposition to the Soviet Union, it is to be expected that the "Tudeh" will again become an important factor in Iran's internal affairs.

4) Syria and Lebanon:

The Communist movement in Syria does not appear to be of a significant nature at the present time, but we are increasingly concerned at the apparent continuing growth and strength of the Communist Party in Lebanon. Our concern in this respect is increased by reports that Lebanon serves as a center for the dissemination and management of communist propaganda and activities into neighboring Arab countries. It would be wise to give consideration to ways and means of combatting the development of communistic influence in Lebanon. If the movement could be impeded in Lebanon, the effectiveness of communist efforts in neighboring countries would be thwarted to some degree.

5) Iraq:

The Communist movement in Iraq should be carefully observed and the Iraqi Government should be encouraged in its efforts to prevent the spread of communism within the country. At the same time, we feel that the Iraqi Government should be careful to distinguish between Communist and non-Communist labor agitation. It would be beneficial for both the Iraqi Government and the oil companies to make efforts to improve the living conditions of workers in the oil fields, in order to prevent the spread of social unrest.

6) Egypt:

As yet Communism in Egypt has not developed into an acute problem. There is no official party as such and activity is drastically repressed and curbed by the Government. Yet, organized Communism among laborers, students, leftist intellectuals, many

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younger members of the Wafd (the largest political party), some minority groups, and even slightly in the Army, is gradually becoming entrenched. The legations of the USSR and its satellites, under the guise of commercial and cultural activities and by secret subsidies, have been supporting Communistic infiltration.

The problem would have little substance were it not that the low standard of living of the masses, combined with marked extremes between the rich and poor, the political domination of the upper classes and nationalistic frustration provide a fertile field for the spread of Communism.

Drastic and often indiscriminate repressive measures have proved largely ineffective. A wiser solution would appear to be along the lines of effective measures to raise the general standard of living, particularly among the industrial workers, despite the opposition of vested interests.

7) Saudi Arabia:

The entire Arabian Peninsula is largely free of Communist penetration. It is possible that some of the recent strikes at Dahran were Communist-inspired, but no direct proffs of this have been found. There are no longer Russian Missions in Saudi Arabia, and the Russian pilgrims that come to Mecca are carefully segregated.

8) Palestine:

Communism has a small but firm foothold in Palestine. There is a Jewish Communist Party and an Arab Communist Party. The Stern Gang has recently shown marked Communist leanings, and the left-wing (but not Communist) labor group is the dominant organization in Jewish politics and controls the Jewish Agency.

The growth of Communism in Palestine has been attenuated by the failure of the

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Soviet Union to take a definite position on the Palestine question. If and when it does so, the Communist movement may be expected to have a rapid growth among Jews or Arabs, as the case may be.

9) Ethiopia:

It is becoming increasingly apparent that the USSR is taking a much closer interest in Ethiopia. The reasons are obvious. Ethiopia provides them with a base in an independent country from which they can conduct communist propaganda and other activities in the areas under the sovereignty of the imperialist powers. Moreover, if Soviet influence in Ethiopia could be increased, it would form a threat to the whole British position in the northeast corner of Africa. So far, Soviet interest has been confined to the following activities:

a) Cultural and information activities, including a Soviet exposition in Addis Ababa, public showings of Soviet propaganda films, and the exertion of pressure on the Ethiopian Government for the inclusion of favorable articles in Government-controlled newspapers.

b) The establishment in Addis Ababa of a fully-equipped and staffed hospital, which will be manned by approximately 40 Soviet doctors and nurses.

c) The recent offer of arms to Ethiopia.

d) Exertion of pressure on the Armenian commercial community to adopt Soviet nationality, which would result in the creation of a strong pro-Soviet national group within Ethiopia.

This activity should be viewed in the light of evidences of Soviet interest in Ethiopia's neighbors, such as (1) Molotov's statement at one of the early CFM meetings

on the Italian Treaty, of Soviet interest in a trusteeship over Eritrea, and (2) indications of Soviet interest in sending a trade mission to the Yemen. It has recently been reported from Ethiopian sources that the Soviets have given Ethiopia assurances of support regarding the Eritrean situation. If true, it may be assumed that the Soviets hope to acquire increased influence in Ethiopia from the good will created by such a gesture.

There have been recent indications that the Ethiopians may be receptive to Soviet overtures. While it is not believed that the Ethiopians would purposely grant the Soviets a predominant position in their country, the possibility must nevertheless be recognized that, because of their failure to recognize the full implications of close association with the Soviets, they might become involved in a situation from which they would find it impossible to extricate themselves.

10) French North Africa:

The Communist Parties in French North Africa are extremely active. They are endeavoring assiduously, and according to well-defined plan, to assure eventual control of that area to Moscow. Their elastic strategy is dependent principally on the current degree of success of the Communist Party in France, which is to say that if the Communists get control of France they wish North Africa to continue to be attached to the metropole. Their policy also provides for communist control of the area in the event that they lose out in France. This latter objective would be accomplished by working for the independence of North Africa in such a way that, in the resulting chaos, communist discipline, organization, experience, money, and propaganda would, barring the successful intervention of another Power, assure eventual communist control of the new states. The Communists

have managed to keep one step ahead of the Nationalists in the demands for the autonomy of the area, but the appeal of their propaganda is partially weakened by their insistence that these independent states remain a part of the French Union, a term which is anathema to the Arab Nationalists. The Communists point out, however, that if these countries achieve complete independence and then sign a new treaty of alliance with France, they can thus control their relationship with France in this "Union".

Comment:

This general subject should be discussed with the British with a view to exchanging factual information both now and in the future and also to recommending appropriate action. In such discussion, particular emphasis should be laid on the possibility of establishing closer and more effective contact with organized labor in the countries of the Middle East through the appointment of experienced labor attachés, having especial regard for the selection of the right kind of American and British representatives to undertake this important work.

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e. Internal Political Situations:

While it is our normal inclination to avoid becoming involved in the internal affairs of other countries, experience has shown that in certain situations such circumspection may be to the detriment of ourselves and our friends. The following developments are reviewed in this light and some at least will presumably come up for discussion with the British.

Greece:

The inability of Greek political leaders to establish a stable and efficient government in Greece has greatly retarded the economic, social and political rehabilitation of the country. In consequence, it has opened the way to the Communists and their affiliated organizations in their determined attempt to destroy internal order and take control. Fortunately, the latest change in Cabinet has brought into office a moderate Prime Minister who shows evidence of intending to combine justice and moderation with firmness. If the present coalition can endure, there is good reason to hope for a substantial improvement, but it rests on shaky foundations and will require the most careful watching.

Our policy has been to work steadily for a broad cabinet including as many as possible of the parties represented in the Parliament, but excluding both the Communists and their sympathizers on the one hand and the small group of violently reactionary rightists on the other. We have, however, generally avoided making specific suggestions to the Greeks regarding personalities or groups to be included or excluded. We propose to continue on this line,

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lins, emphasizing the need for national unity and the submergence of individual political ambitions and party rivalries. (Deptel 69 to Athens, January 21, 1947.)

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Turkey:

Political conditions in Turkey are stable and marked by a definite trend toward more complete democracy. It appears unlikely that any special action by the U.S. or Britain will be called for in this sphere.

Iran:

Iranian politics operate on the principle of leadership as opposed to party programs. The present Prime Minister, Qavam es-Sultaneh, is the dominant political leader of Iran, controlling approximately three-fourths of the Parliamentary representation. That control is based upon Qavam's power during the recent elections, at which time he headed the only organized political party in Iran and supervised the election of his hand-picked candidates, plus the fact that his program of economic and social reform has certain appeal to the independent political elements within Iran.

The Shah, by virtue of the prestige of his position and his leadership of the Iranian Army, controls the political disposition of a sizeable segment of the population as represented by approximately one-fourth of the Majlis members. Out of concern for his personal position as well as the uncertainties in Qavam's attitude toward the Soviet Union in the past, the Shah has a personal animosity toward any strong civilian authority, particularly when such authority elicits the support of powerful, dissident tribal leaders.

While all political elements are generally opposed to Soviet influence within Iran, particularly since the passing of the Tudeh Party

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the Tudeh Party from power, Iranian politicos tend to retain their traditional policy of playing a balance of power game between the two foreign powers currently most interested in Iran. In the view of this Government, the U.S. does not propose to succeed to the British role of dominance in the South, in balance to Soviet influence in Northern Iran, and takes every opportunity to encourage independent Iranian action in the interest of the country. We have recently made known our attitude toward the desirability of re-styling internal political defenses within Iran (Deptel 584 to Tehran, September 25, 1947.)

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Arabian Peninsula:

The United States has not in the past, is not now, and is not likely in the forseeable future to take part in internal politics in the countries of the Arabian Peninsula. It is expected that Prince Saud will succeed his father peacefully in Saudi Arabia, and that Prince Ahmed will succeed the Imam in Yemen. Even if these transitions should not take place peacefully, the United States would be reluctant to interfere except in extreme circumstances.

Ethiopia:

In view of the geographical location of Ethiopia vis-a-vis Aden, the strategically important Red Sea area and contiguous British territories, it is in the interest of both the British and American Governments that the Government of Ethiopia should be sufficiently strong to enable it to maintain internal law and order. At the present time, the authority of the government diminishes the further the distance from the capital. Some of the more remote districts are semi-autonomous feudal units, with local chieftains either in open or tacit defiance of the authority of the central government. It is

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obvious that such a situation makes the task of the central government difficult and creates a potentially dangerous situation in a vital area. Although the present Government has made important strides in unifying the country, there is still much room for improvement. The U.S. and U.K. should be prepared to render all appropriate assistance to the Emperor in his efforts to centralize the administration of the country and to institute programs of reform and development which would have the effect of increasing the prestige and authority of the Crown.

Afghanistan:

The situation in Afghanistan is somewhat analogous to that of Ethiopia in that it has a narrowly based central government under constant pressure from tribal elements. The internal situation there at present however does not appear to be a cause of especial concern.

Other Middle Eastern Countries:

The internal situations in Egypt, Iraq, Syria, and Lebanon do not call for comment at present.

French North Africa:

The political situation in French North Africa, although not yet desperate, is serious; and if it continues to deteriorate at the same pace as during the last twelve to fifteen months, there is a definite possibility that what is now a political problem will turn into a danger to peace.

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The Nationalist movement in North Africa is gaining in strength and determination. In general, the North African Nationalists are demanding independence from France. Their aspirations are receiving encouragement from the Arab League, which has, however, restricted its activities so far to moral support. The Communist Parties of Morocco, Tunisia, and Algeria have been employing their propaganda apparatus and other techniques in support of the Nationalists' demands, although presently advocating "autonomy within the French Union." Whether the Communists will favor complete independence from France, autonomy within the French Union, or complete union between the "progressive" elements in both France and North Africa will depend upon the internal political situation in France, the current degree of power of the French Communist party, and, of course, overriding orders from Moscow which sometimes demand a policy in the dependent areas not designed to further the best interests of the Communist party in the mother country. So far the Moroccan and Tunisian Nationalist parties have refused to associate themselves with the Communists despite the entreaties and tactics of the latter.

France does not seem to have evolved a long-range colonial policy designed successfully to meet the changed political situation in her Empire. If such a policy exists, its implementation is being alarmingly delayed. The French have been inconsistent and misdirected in their use both of force and concessions vis-a-vis their dependent peoples, and, as a result of all of these factors, France would appear to be in a very poor position to solve the political problems facing her in North Africa without some assistance.

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The State Department has now undertaken a plan of action which it is felt may be of considerable assistance in improving the internal situation in French North Africa. Politically, this plan envisages a high-level, confidential, and oral approach to the French Government with a view to urging the French to offer to the peoples of Morocco and Tunisia constructive, concrete, and long-range proposals guaranteeing gradual but sure evolution toward something comparable to dominion status. The French will be assured that if they take such steps we will be willing to support their program vis-a-vis the Arabs. If our proposition is accepted and acted upon in a manner satisfactory to us, we can then approach the Moslems of North Africa and point out how such an evolution under the aegis of a benevolent France is to their advantage. In view of the fundamental differences in the political, economic and racial problems of Algeria, we may have to support the Algerian Statute, which has recently been voted by the French assembly, until such time as it has had a chance to prove itself; but at the same time we can urge the French to expedite further social and educational progress throughout Algeria.

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d. Special British Treaty Relationships:

Kuwait, Bahrein, Oman and Muscat and the Sheikhdoms of the Trucial Coast have chosen to place the conduct of their foreign relations in the hands of the British, and are known as British protected States. Political and economic changes in the Persian Gulf over the last fifteen years have made this situation obsolete. In view of the fact that the British are pulling out of India while at the same time American interests are predominant in Saudi Arabia and Bahrein, and rapidly growing in importance in Kuwait, it is reasonable for us to inquire of the steps the British are planning to take to recognize the new situation in the Persian Gulf, as well as in south Arabia.

Iraq:

It would be to the interest of all concerned to abrogate the Anglo-Iraqi exchange of notes of June 30, 1939, which binds the Iraqi Government to engage only British subjects when in need of the services of foreign officials except for posts for which suitable British subjects are not available.

Egypt:

The military clauses in the 1936 Treaty regarding missions, training of Egyptians abroad and purchases of supplies are a limiting factor in the development of any military cooperation along these lines which we might wish to extend to Egypt. We regard the clauses as binding on Egypt until revised or abrogated and although we do not, of course, look on them as legally binding on us, it is our policy, as a matter of

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as a matter of courtesy to the UK, to refrain from supporting Egyptian violations of them by acceding to Egypt's requests inconsistent with them without UK concurrence. As in the case of the waiver of the British diplomatic precedence clause, prior to the raising of our Legation to an Embassy, the British would undoubtedly not insist on a strict observance of these military clauses if the Egyptian case is disposed of in the Security Council. It should be noted that the proposed draft revision of the Treaty (Bevin-Sidky) omits these clauses as well as those providing for a perpetual military alliance even after 1956.

Furthermore, until the 1936 Treaty is revised, and in the event of a war between the US and a third power in which the UK might be neutral, it might be very difficult for us to arrange to establish bases in Egypt. It should be recalled that our military operations in Egypt during the last war were made possible by the British under the provisions of the Treaty of Alliance with Egypt. Article 5 of the 1936 Treaty reads as follows: "Each of the high contracting parties undertakes not to adopt in relation to foreign countries an attitude which is inconsistent with the Alliance, nor to include political treaties inconsistent with the provisions of the present treaty."

Attention is also called to Para. 11 of the Annex to Article 8 which provides as follows: "Unless the two Governments agree to the contrary, the Egyptian Government will prohibit the passage of aircraft over the territories situated on either side of the Suez Canal and within 20 kilometres of it, except for the purpose of passage from east to west or vice versa by means of a corridor 10 kilometres wide at Kantara. This prohibition will not,

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however, apply to the forces of the High Contracting Parties or to genuinely Egyptian air organizations or to air organizations genuinely belonging to any part of the British Commonwealth of Nations operating under the authority of the Egyptian Government."

e. British Middle East Office

The British Middle East Office, an outgrowth of the Middle East Supply Center in which the U.S. participated during the war, now makes available economic experts to Middle Eastern countries desiring them and performs various coordinating functions. Apparently little use has been made of the services of this institution.

We do not believe that passive assistance of this character to the Middle Eastern countries will adequately meet their needs. Moreover, the B.M.E.O. inherits, to some extent, the unpopularity in the Middle East of the old MESC. In our view, the lethargy of the governments of this area necessitates a more active form of assistance than that envisaged by the B.M.E.O. For this reason, and because an overtly coordinated proffer of Anglo-American assistance of this type would be looked upon with suspicion by Middle Eastern governments, we do not favor U.S. participation in this organization.

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f. Cultural and Informational Activity

Although this subject does not fall within the specified scope of the conversations, it is suggested that mention of it might properly be made as one of the instruments at our disposition of which full advantage should be taken in seeking to obtain common objectives. Unfortunately there has sometimes been a tendency for American and British cultural and informational agencies to be more competitive than cooperative. While a certain amount of healthy rivalry may not be amiss, and while complete identity of approach would doubtless be tactically unwise, it is believed that closer behind-the-scenes consultation and planning would be beneficial.

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g. The Turkish Straits

In August and September of 1946 the Soviet Government presented notes to the Turkish Government calling for a revision of the regime of the Turkish Straits. (The present regime is based upon the Montreux Convention of 1936). The Soviet proposals included certain relatively unimportant changes to which the US and Britain had already indicated their agreement in principle, but two of the proposals were of a character which neither the Turks nor the Americans and British could accept. These provided for the establishment of a new regime by the four Black Sea Powers,--Russia, Rumania, Bulgaria, and Turkey--and for the joint defense of the Straits by the Soviet Union and Turkey. The Turks rejected these proposals, and the American and British governments likewise made known their stand that the regime of the Straits was not of sole concern to the Black Sea Powers and that Turkey should remain responsible for the defense of the Straits. All three governments, however, indicated their willingness to take part in a conference of the Powers signatory to the Montreux Convention, plus the US, to discuss the revision of that convention. The Soviet Union indicated its unwillingness to take part in such a conference.

Since last fall the question of the Straits has remained dormant, but there is no reason to believe that the USSR has relinquished its determination to obtain a share in the control of the Straits. It is our belief that the Russians are interested in this not so much because of the importance of the Straits themselves, since it would be possible for the Soviets to close the Straits by the use of aircraft based in their own territory or on that of Bulgaria or Rumania, but because a foot-hold in the Straits region would open the way for the USSR to achieve complete domination of Turkey and subsequently of the rest of the Near East.

It would be desirable to confirm our assumption that the British attitude toward the Straits question remains substantially the same as our own.

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h. The Palestine Question

Current Aspects:

As stated by the US representative in the special committee of the UNGA on October 11, we consider that "in the final analysis the problem of making any solution work rests with the people of Palestine." In the absence of agreement upon a basis for settlement by the parties primarily at interest, we consider that the GA has an important role to play in recommending a solution which "should not only be just, but also workable and of a nature to command the approval of world opinion."

It is presumed that the UK is in substantial accord with our attitude, as expressed above.

More specifically, we have stated that we support "the basic principles of the unanimous recommendations (of UNSCOP) and the majority plan which provides for partition and immigration," but we consider that certain amendments and modifications should be made in the plan in order to give effect to the principles on which it is based.

The problem of implementation is obviously one which will have to be carefully considered by the GA.

Presumably the UK will not feel called upon to express its views on the majority plan or any other plan until it receives the recommendations of the GA.

As further stated by the US representative on October 11, "responsibility for the government of Palestine now rests with the Mandatory Power". It is difficult to see how the UK could divest itself of responsibility for governing Palestine until arrangements of some kind are made to relieve UK of its existing responsibility.

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General Aspects:

It has been clear for some time that the primary aim of the Soviet Union with respect to Palestine (as with respect to the Middle East generally) is to have the British leave that area. Mr. Creech-Jones' declaration before the GA has brought this objective in sight of fulfilment as regards Palestine. The logical parallel aim of the Soviet Union is to install itself in the Middle East wherever and as strongly as circumstances permit. Since the Palestine question has now entered the UN picture, an opportunity may be afforded for the Soviet Union and its satellites to play an active role in Palestine under the UN umbrella. If this role should be substantial, the Soviet Union would in effect have bypassed Greece and Turkey and would have established a new base for extending its influence and authority from Palestine to the south and east. US and UK should be thoroughly alive to these possibilities in their work on the Palestine question.

US support of the UNSCOP majority plan will undoubtedly result in making it difficult for the US to carry out its strategic, political and economic objectives in the Arab countries. The magnitude of these difficulties and how long they will endure will depend upon future developments, an particularly upon whether the partition receives UN approval. If it does, se and long continued difficulties may pated. They will probably be most s with respect to Iraq and Syria, some less so with respect to Lebanon, Egy Saudi Arabia. Strategically and pol we may find our position seriously a , and increased reliance in the economic and social fields may have to be placed upon international and private organizations such as the World Bank, American educational institutions, oil companies, etc.

Presumably the British will be less handicapped, but their economic weakness will make it difficult for them to take advantage of their relatively better political relationship with the Arab countries.

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1. The Arab League

Basically, we regard the Arab League as a sound conception, although we do not regard it as having any official status and deal with it through its individual members rather than as an institution qualified to represent the states adhering to it. It satisfies the natural and legitimate desire of the Arab states for an organization which will develop and give practical expression to their common views and needs, and which can perform a useful service in settling some problems arising between the various Arab states themselves.

The United States has supported the latter aspect of the League and, in connection with King Ibn Saud's anxiety over the Greater Syria question, he was informed of our view that this would seem a fit subject for the League to consider, if other efforts to solve it should not succeed.

There is an undoubted tendency on the part of Azzam Pasha, Secretary General of the League, to utilize his position to support Egyptian aspirations by speaking in the name of the League, apparently without the authority of the members. This tendency of Azzam Pasha appears to have aroused considerable resentment among the non-Egyptian members, and it is quite possible that he has been or will be called to order.

Azzam Pasha frankly admitted to us that the League is weak on the economic side. We plan to put in his hands, as soon as it is published, a copy of the economic survey of Turkey which Mr. Max Thornburg has done for the Twentieth Century Foundation, with the idea that Azzam Pasha might wish to arrange, through the Arab League, for a similar survey on one or more Arab countries.

In brief, we feel that the Arab League serves a useful function, and that, in such ways as are open to us, we should encourage its development along constructive lines.

We shall undoubtedly wish to discuss with the British the role which the League might play in any coordinated Anglo-American policy toward the Middle East.

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j. Transjordan

King Abdullah has made it plain that he greatly desires US recognition of the independence of Transjordan. We have refrained from recognizing the independence of Transjordan in view of the great pressure which was brought to bear upon the Department to make energet[illegible] representations to the British Government in regard to the latter's recognition of Transjordan as an independent state. It was felt that recognition of Transjordan by the US would result in such violent criticism of the Department that its work on the main Palestine issue would be seriously impaired.

We have consistently supported Transjordan's application for membership in UN. When that is accomplished, recognition of Transjordan by the US would be logical and more easily justifiable. If the admission of Transjordan to UN should be long delayed, we could probably proceed to recognition whenever a Palestine settlement is reached which is of a nature to make it clear that the Zionists cannot hope to realize their aspirations in Transjordan.

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k. Greater Syria

The Greater Syria issue appears to be satisfactorily composed for the present, through British action in exercising a restraining influence on King Abdullah of Transjordan. We believe the British statement declaring British neutrality in this matter was helpful, even if it did not completely satisfy the countries opposed to Abdullah's plans.

In response to an appeal from King Ibn Saud, we set forth our attitude on this question in the
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In a fundamental sense, we are not opposed to the amalgamation of some of the small Near Eastern States, so long as this is accomplished in accordance with UN principals. Amalgamation would have obvious economic advantages. On the other hand, it would subject Lebanon and Saudi Arabia to severe political strains.

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The Egyptian Question

The outstanding event in Egypt's foreign affairs has been its appeal to the Security Council regarding the revision of the 1936 Anglo-Egyptian Treaty of Alliance and the status of the Sudan. Protracted negotiations between the two countries broke down over the question of the future status of the Anglo-Egyptian Sudan. The British were willing to acknowledge Egypt's titular soverignty over the Sudan but insisted that the status quo be maintained until the Sudanese were sufficiently advanced to opt for their own political status. The Egyptians expressed willingness to work toward granting the Sudanese autonomy but would not agree to their ultimate right to vote for complete independence with consequent separation from Egypt.

The Egyptian Prime Minister asked the Security Council to direct immediate evacuation of all British forces from Egypt and the Sudan and to direct termination of the administrative regime in the Sudan which Egyptians maintain is used to encourage a separatist movement. He maintained that the question of the administration and future status of the Sudan is a matter for the people of the Nile Valley to decide.

The British representative in his first statement asserted that the Egyptian Government had shown no grounds for Security Council action since there was no danger to international peace and security and because the matters of which Egypt complained were covered in valid treaties still in force. He emphasized that the above-mentioned British attitude toward the future of the Sudanese would not be abandoned. In later statements he denied that the present British policy in Egypt and the Sudan was a continuation of nineteenth century imperialism, pointing out the great progress made in the Sudan under the condominium and insisting that the small

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Egyptian participation was not so much the result of British pressure but rather to Egypt's failure to supply adequate personnel at appropriate administrative levels. He pointed out that during the negotiations for the revision of the 1936 Treaty, agreement had been reached on the date of withdrawal of British troops from Egypt, and he referred to British willingness to resume negotiations.

The U.S. supported a resolution proposed by Brazil recommending that the parties resume direct negotiations, and that in the event of failure they select any other peaceful means of their own choice to settle the dispute; also, that the Security Council be informed of the progress of such efforts.

Resolutions recommending resumption of negotiations were also introduced by the Columbian and Chinese representatives but these, like the Brazilian resolution, failed to pass and there is at present a complete deadlock, although the Security Council remains seized of the dispute. The Russian and Polish representatives have abstained and will continue to abstain from voting on any resolution which does not clearly direct the immediate evacuation of British troops from Egypt. They reserve their opinions on the Sudan issue. The Egyptians and their chief supporters will be dissatisfied with any resolution which does not express or imply confidence that the British will announce their intention to evacuate troops at an early date prior to a resumption of negotiations for a settlement of other matters in dispute in connection with the treaty revision. Four or five of the representatives, including the U.S., believe that the Egyptians have not sufficiently proved that the dispute is a threat to international peace and

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security and that, therefore, Article 37 of the Charter should not be invoked. They have avoided a discussion of the substantive merits of the case. Although technically the case might have been thrown out on the grounds of "no jurisdiction" it was permitted to be placed on the agenda and thoroughly discussed in an endeavor to help the parties reach a fair solution. The British oppose any resolution which implies censure or criticism of them for considering the treaty valid until revised, abrogated or terminated, and although willing to have the question of the treaty's validity referred to the ICJ (a proposal violently opposed by the Egyptians) and to resume negotiations, the British object to having one of the matters under dispute (evacuation) mentioned even in the preamble of a resolution without a balancing clause alluding to the existence of a valid treaty and to the other items in dispute, all of which, the British consider, should be negotiated simultaneously. Both parties have expressed a desire that the matter before the Security Council remain "status in quo" until possibly the end of the current General Assembly session. Although we are interested in increasing the prestige of the Security Council and would be willing to propose a resolution at an appropriate time if we thought it could receive the necessary 7 affirmative votes (which is extremely doubtful,) for the present we are not planning to take any initiative in the matter.

Very little discussion took place in the Security Council on the Sudan issue which was the chief obstacle in the 1946 negotiations for treaty revision. According to the draft revision agreement was reached on the date of withdrawal of British troops (September 1, 1949) and on the establishment of a Joint Board of Defense, Articles 2 and 3 read as follows:

> The High Contracting Parties agree that in the event of Egypt becoming the object of armed aggression or in the event of the United Kingdom becoming involved in war as the result of armed aggression against countries adjacent to Egypt, they shall take, in close

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co-operation and as a result of consultation, such action as may be recognized as necessary until the Security Council has taken the necessary measures for the reestablishment of peace.

In order to ensure the mutual co-operation and assistance of the High Contracting Parties, and in order to permit of the effective coordination of the measures to be taken for their mutual defence, the High Contracting Parties agree to establish a joint Board of Defence composed of the competent military authorities of the two Governments, assisted by such other representatives as the two Governments shall appoint.

The Board is an advisory body whose functions are to study, with a view to proposing to the two Governments the measures to be taken, problems concerning the mutual defense of the High Contracting Parties by land, sea and air, including questions of material and personnel connected therewith and, in particular, the technical requirements of their cooperation and the steps to be taken to enable the armed forces of the High Contracting Parties to be in a position effectively to resist aggression.

The Board shall meet as often as may be necessary in order to carry out these functions. If need arises, the Board shall also examine, on the invitation of, and on the information supplied by, the two Governments, the military repercussions of the international situation, and, in particular, of all events which may threaten the security

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of the Middle East, and shall make in this respect suitable recommendations to the two Governments, who, in the case of events threatening the security of any one of the neighbouring countries of Egypt, will consult together in order to take in agreement such measures as may be recognized as necessary.

The Draft Sudan Protocol reads as follows:

> The policy which the High Contracting Parties undertake to follow in the Sudan within the framework of the unity between the Sudan and Egypt under the common Crown of Egypt will have for its essential objectives to assure the well-being of the Sudanese, the development of their interests and their active preparation for self-government and consequently the exercise of the right to choose the future status of the Sudan. Until the High Contracting Parties can in full common agreement realize this latter objective after consultation with the Sudanese, the Agreement of 1899 (Treaty No. 1400*) will continue and Article 11 of the Treaty of 1936, together with its Annex and paragraphs 14 to 16 of the Agreed Minute Annexed to the same Treaty, will remain in force notwithstanding the first Article of the present Treaty.

The Egyptians' interpretation is that although they are willing to assist the Sudanese in obtaining autonomy, they cannot agree, as mentioned above, to permit the Sudanese to opt for their future political status which might result in complete independence and consequent secession from Egypt. In fact, the extreme Egyptian thesis is that both the 1899 Condominium agreement

and the 1936 Treaty

and the 1936 Treaty are no longer valid, that the Sudan is an integral part of Egypt and that only the inhabitants "of the Nile Valley" should have any say as to its political status. They want the present administration of the Condominium abolished.

Irrespective of the extremely involved history of the Sudan, both prior to and after 1899; in spite of frequent allegations of the British as to the early maladministration of the Sudan by the Egyptians; in spite of Egyptian accusations of maladministration by the British under the Condominium; and notwithstanding inaccurate statements by the Egyptians that the Sudanese and Egyptians are one and the same, racially and culturally, and that virtually all Sudanese wish to remain under the Gyptian Crown, we support the British thesis that the future welfare of the Sudanese is of primary consideration and that at some time in the future, they should have the right to opt for their political status. Although, we recognize the validity of the Condominium Agreement, reaffirmed and extended in the 1936 Treaty, we sympathize with Egyptian desires for a larger participation in the administration of the Condominium and for normal cultural and economic cooperation. We feel, however, that much study should be given to the best methods of implementing such increased participation in order not to disrupt the efforts of the present administration to develop a responsible group of Sudanese civil servants and institutions of local self-government.

Egypt's desire for protection of its southern boundary and its fears resulting from British preponderance in the Sudan are legitimate and should be given adequate recognition in any settlement of the whole problem.

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Egypt's vital interest in the control of the waters of the Nile, accurately described by the Egyptians as their "life blood," is fully recognized. This question is a comprehensive one and although of primary interest to Egypt and the Sudan, it also concerns Ethiopia, Eritrea, Uganda, Tanganyika, Kenya, and the Belgian Congo.

Although it is not intended here to offer detailed suggestions regarding a solution of the Anglo-Egyptian dispute over the Sudan, it is obvious that any future of the Sudan should necessarily provide for protection to Egypt of its water supply. The Nile Waters Agreement of 1929 might well be extended to include countries other than Egypt and the Sudan and possibly lead to an International Nile River Control Commission.

The draft Anglo-Egyptian Treaty in Part II ("Documents relating to the Sudan") states in Paragraph 2 that "It is understood that if the Sudanese should decide in favor of independence, suitable arrangements should be made between Egypt and the Sudan establishing their relations on a basis of friendship, particular regard being had to the development and utilization of the waters of the Nile for the greatest benefit to the Egyptian and Sudanese peoples and to the other material interests of Egypt in the Nile Valley." Paragraph 3, dealing with interim arrangements prior to a plebiscite in the Sudan reads as follows:

> The two Governments will set up a Joint Council which will meet as often as is necessary to keep under review the progress of the Sudanese towards self-government, to make appropriate reports

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to the two Governments and to recommend in due course suitable arrangements for ascertaining what are the wishes of the Sudanese people and for giving effect thereto. Arrangements shall be made for the representation of the Sudanese people in this Joint Council.

The Sudan problem is extremely complicated. The juridical situation has been aptly termed "a nightmare." Many pertinent and essential facts regarding existing conditions, known probably only by the present administrators, have not been taken into consideration in top-level discussions of the problem. The main difficulty arises from the lack of ability/to assess the preparedness of the Sudanese for independence or even for self-government. The 2,500,000 inhabitants of the Southern Sudan are chiefly pagan negroids, immeasurably less civilized than the Northern Sudanese. Very small numbers even in the Northern Sudan are as yet capable of grasping the elementary principles necessary for responsible government.

From the strategic angle, this question has not been raised in the past in such a way as to require the formulation of our views. We know, however, that Mr. Bevin's present thinking is along the line of insisting strongly on an important British base in the Sudan, and it is expected that this question will come up in the course of the discussions with the British, who presumably will have given it careful thought. If so, it is suggested that we should reserve our position until we have had the opportunity of hearing such plans as the British have evolved.

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a. Disposition of the Italian Colonies:

The problem is to determine what final disposal of Italy's former territorial possessions in Africa, namely, Libya (comprising Tripolitania and Cyrenaica,) Eritrea, and Italian Somaliland, would be in the joint interests of the U.S. and U.K. in view of the present situation in the Mediterranean.

Article 23 of the Italian Peace Treaty states that the Governments of the U.K., U.S., U.S.S.R., and France shall jointly determine the final disposal of the former Italian Colonies within one year from the coming into force of the Peace Treaty (i.e., by September 15, 1948) in the manner laid down in Annex XI of the Treaty. The Deputies of the Foreign Ministers are meeting in London at present to discuss procedural matters in connection with the implementation of Article 23 and Annex XI of the Treaty, including the instructions to be given to the commission of investigation to be sent to the colonies, and to decide on the future program generally.

At the meetings of the Foreign Ministers in 1946 and 1946, the U. S. advocated the principle of collective trusteeship as the best method of developing these territories toward self-government. In the present international situation, however, and particularly in view of the situation in the Mediterranean area, NEA thinking with respect to each of these is as follows:

1. Libya: That Libya should be placed under the international trusteeship system, with the Government of the United Kingdom as the administering authority, under terms of trusteeship which would provide for the people of Libya to become self-governing at the expiration of a period of ten years from the date of the establishment of such trusteeship, at which time Tripolitania and Cyrenaica would be permitted individually to elect whether they desire

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they desire to (a) become separate independent states, (b) remain united as an independent Libya, or (c) become federated with other states or territories.

2) Eritrea:

That Eritrea should be ceded in full sovereignty to Ethiopia, except for the area in the northwestern part of Eritrea inhabited by Moslem-Sudanese, which should be incorporated into the Anglo-Egyptian Sudan.

3) Italian Somaliland:

That Italian Somaliland, together with British Somaliland, should be placed under the international trusteeship system, with the Government of the United Kingdom as the administering authority, under terms of trusteeship which would provide for eventual self-government but which would not fix the period of time within which the area would become self-governing.

Discussion of this problem is contained in the appended memoranda, dated July 8, 1947, and October 1, 1947.

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EUR concurs with NEA in so far as a British trusteeship for Cyrenaica is concerned, but reserves its position with respect to the disposition of the other Italian colonies.

B. British and American Payments to the Iranian State Railways:

Until July 1, 1945, the British advanced all funds needed to keep the railways running for the benefit of the Allies. The United States, however, provided substantial quantities of supplies and, after July 1, 1945, assumed responsibility for all railway charges directly connected with U.S. military operations. Prior to that date we took the position that we had no direct financial responsibilities.

The British have been endeavoring to negotiate a settlement with the Iranians, but so far without success. The latest British offer is for 4 million pounds in liquidation of all outstanding charges exclusive of port charges, whereas the Iranians are asking 11 1/2 million pounds. A British financial expert has indicated to us that the British might make a compromise settlement whereby Britain would pay 6 million pounds for a complete discharge of all claims, including port charges, and assume any American claims against the railroad for supplies furnished.

The U.S.S.R. has never paid anything on its share of the expenses of maintaining the railroad during the war, and there is no indication that it intends to do so. The British have lately taken the position that it is up to the Iranians to get a settlement direct with the Russians. It seems apparent that any attempt by the U.S. or Great Britain to intervene with the Russians on Iran's behalf would be completely fruitless.

PART C

(3) Politico-Economic Questions

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PART C

3. Politico-Economic

IMPROVEMENT OF LIVING STANDARDS IN THE MIDDLE EAST THROUGH DEVELOPMENT OF RESOURCES AND INDUSTRIALIZATION

Living standards of the masses in the Middle East are generally very low. The aftermath of war-time activity in the area has caused increased discontent and unrest. The economic stimulation resulting from the purchases by large Allied forces during the war has ceased. Profits made during that period are in many cases frozen in inconvertible sterling. The gap between rich and poor has been increased. In some parts of the area, notably in Egypt, the situation is being aggravated by the pressure of increasing population upon limited resources of cultivable land.

Such conditions are due to a complex of causes. These are not all, nor immediately, remediable. Nevertheless a general increase in the economic prosperity of the peoples of the Middle East, as broadly distributed as possible through the masses of the population, is most desirable if not essential. It is needed as a basis for internal stability and security of the area, and to reduce the danger of revolutionary developments and communist penetration.

Two general lines of endeavor are indicated. Since the Middle East is largely agricultural, expansion of the area of cultivable land and improvement in its utilization afford the most likely avenues of economic development. Geographical factors make such development possible.

At the same time development on certain appropriate lines of industrialisation is desirable, including development of manufacturing and transport facilities. Increasing pressure of population, resulting from high birth rate, and augmented, as health standards improve, by low death rates, point to prospects of increasing population which cannot all be accommodated on the additional land which may become cultivable through development projects. Increasing proportions of the population must therefore find opportunities to earn their living in industrial pursuits. However, the pattern of industrial development cannot arbitrarily be imposed, nor copy the pattern of highly industrialized western countries. It must develop according to the local requirements and possibilities of the area.

Over the long range the principal contribution which Anglo-American cooperation may lend to the economic welfare of the Middle East is through assistance in the development of the natural resources, particularly the land, and of the transportation facilities, and suitable industrialization possibilities.

But the task is neither simple nor easy. Effective development

requires far more than the provision of capital and technical assistance to construct particular projects, however well-conceived. Complex adjustments will be required to fit such developments into the pattern of life of the area, as well as to adjust the pattern to the developments. In particular, laws governing land tenure will generally require reform; and careful attention to public health requirements will be necessary. In general, it is likely that commercial and financial institutions and practices, and the procedures for collection and expenditure of public revenues, will require considerable development. Above all, however, these problems must be recognized as the internal problems of the countries of the Middle East. The solutions, to be effective, must be their solutions, adapted to their way of life, thought and culture. The assistance, technical and otherwise, which the United States and the United Kingdom may offer must follow methods agreeable to and accepted by the Governments and peoples of the area.

Current trends in the development of the oil resources in the area are illuminating. They provide the basis for a considerable influx of private capital into undeveloped areas of the Middle East. Through royalties, fees, and wages, and expenditures made in producing oil, a large flow of new income expendable abroad comes into the hands of the local peoples and Governments. Problems of judicious and beneficial handling of this new large flow of wealth are becoming apparent, whether as problems affecting oil company relationships with the local authorities, or in the evident need for new or modernized financial institutions and procedures of public finance.

Among the many development projects currently proceeding, proposed or envisioned in the area, the two of most outstanding interest at this time are (1) a proposal for a vast irrigation scheme on the Tigris and Euphrates Rivers in Iraq, which would serve to double or treble the population required in the area; and (2) the Lake Tana Dam project which is a part of a major scheme for control of the Nile and expansion of cultivable land in Egypt and the Sudan. These two projects are separately outlined below, and are followed by outlines of present and proposed industrialization or development projects in the various countries of the area.

Iraq Irrigation Scheme

A low state of agricultural development prevails in Iraq. The major scope for economic improvement in that country therefore lies in development of agricultural resources and methods before substantial industrial development is undertaken.

Possibly the greatest single opportunity for economic development lies in the Tigris-Euphrates Valley in Iraq. Here there is under investigation a major scheme for restoring the ancient fertility of the area through a broad program for the development of irrigation and flood control. This project is under study by a British Irrigation Development Commission recruited by the British Government at the request of the Iraqi Government and headed by Mr. F. F. Haigh, an irrigation engineer with long experience in India. A preliminary plan for this project has been submitted to the Iraqi Government by Mr. Haigh through the British Embassy at Baghdad. Its principal features and possible results are described in Annex 19 ~~XXXXXXXXX~~, and in the enclosure to Mr. Bevin's memorandum of March 1947 to the Secretary of State (also Annex 21, Part I). The total cost of these projects is estimated

at about 120 million dollars, as a result of which Iraq should gain security from flood danger, and an increase of cultivable acreage under irrigation from the present five million acres to about fifteen million acres.

It is expected that revenues from Iraqi oil production will provide a basis for such expenditures, and that financing through the International Bank may prove appropriate and practicable. Consideration may be given to the formation of an authority along the lines of the Tennessee Valley Authority, by agreement between the Iraq Government and the International Bank. In view of the extent of British & American influence in the International Bank, Anglo-American support for a suitable financing proposal should be significant. It is also believed however that efforts should be made to mobilize Iraqi and possibly other Near Eastern private capital at least to meet local capital expenditure requirements of the project. In the past too much local capital has gone into land, trade and hoarding.

Realization of the benefits of this irrigation scheme will require associated effort along other lines necessary to the improvement of the general standard of living in Iraq. The Iraqi Government should be encouraged to implement its ten-year plan formulated in 1945, of measures to improve national health, establish social security, construct roads and buildings, institute agricultural reform and to undertake settlement of tribes. It is expected that Iraq will need active encouragement, advice and assistance in such matters if the plans are to be carried out effectively.

The Tana Dam Project: An Element in Nile Control

The projected construction of a dam at Lake Tana in Ethiopia, the source of the Blue Nile, is an important and the most advanced of a series of projects for additional construction which would complete the vast project of control of the Nile waters. The purpose of this series of projects is to effect control of the distribution of the waters of the Blue and White Nile, in order to regulate seasonal fluctuations in the level of the River and to open up new areas for irrigation by increasing the flow of water. Through this means it is expected to relieve pressure of population in the Nile Valley and permit the standard of living to be raised by increase in the productivity of the population.

The important projects currently under discussion in connection with this entire project include dam construction at Lake Tana. This lake, the source of the Blue Nile, is situated in western Ethiopia. For many years, the construction of a dam has been studied which would have the effect of storing water for release when required. The historical background of this project is set forth in Annex 13. Any plans with regard to this project must take into consideration the agreed views of Ethiopia, Egypt and Great Britain acting on behalf of the Government of the Sudan. Talks on a technical level have been going on for approximately a year between the British and Egyptian Governments and it is now understood that a substantial measure of agreement has been reached on the technical level. In the event that these technical agreements are ratified by the British and Egyptian Governments, it is to beexpected that a conference on both political and technical levels will be held in which the Ethiopian Government would participate. As will be noted

from Annex 13, the J. G. White Engineering Company, an American firm, has been long interested in this project and made two preliminary surveys in the early nineteen-thirties. It appears likely that this company will participate in the implementation of any plans which the three governments may agree upon.

Jinja Dam. It is understood that the British Government (on behalf of the Sudan) and the Egyptian Government have reached agreement on a technical level for the construction of a dam at Jinja, Uganda. This would raise the level of Lake Victoria approximately one meter and would provide storage for huge quantities of water which could be released into the White Nile. This project, while having many advantages, is not a panacea for the Nile problem since much of the water which would be stored would be dissipated in the swampy "Sud" region in the southern Sudan.

The Baro and Sobat Rivers. In 1946 the Egyptian Government requested the Ethiopian Government to give permission to survey the amount of water lost in the basin of the Baro River, one of the principal affluents of the Sobat River, which in turn flows into the Nile. The Ethiopian Government replied that it could not grant permission until such time as it had had an opportunity to study the Egyptian Government's proposals. So far as is known, the permission was never granted.

EGYPT

In addition to Egyptian interest in the Tana Dam and other projects for regulating the flow of the Nile, there are other prospects for increasing industrialization to afford employment for an increasing population. The principal factors limiting the industrial development in Egypt have been the lack of coal resources, and, in the past, the attractiveness of agriculture as a field for capital investment. These limitations are being modified by the increasing production of petroleum in Egypt over the last six years; by potential development of hydro-electric production in connection with existing Nile river works; and indications of increasing supply of local capital and interest in industrial development.

Before the war, industrialization was making slow progress in Egypt. War-time difficulties of obtaining supplies from abroad stimulated the development of local industry. Today Egyptian small industries are in a transitional stage. Many of those engaged in production for the military services, particularly the British and other military forces in Egypt, have had to curtail their operations. Industries producing for local consumption have experienced little, if any, diminution of demand and their problems of procuring equipment and raw materials are less difficult.

Many Egyptians as well as foreign experts believe that increased industrial expansion in Egypt will be necessary to employ the expanding population and permit an improved standard of living. The technical training received by a substantial number of Egyptian workers during the war, and the skills acquired in Allied services work shops, as well as in the expanded local industries, have resulted in an increased supply of trained labor to man post-war

industrial expansion. Limiting factors such as limited power resources, limited labor skills, lack of machine production industry and lack of minerals circumscribe the scope of Egyptian industrial expansion. Certain industries however can be developed or expanded to the distinct economic advantage of the country. These include the production of electric power and nitrate fertilizer, and textile and chemical production.

Industrial expansion requires however to be accompanied by improvement in general living standards if political stability and security are to be achieved. There are few countries where there is such a striking disparity between the living conditions of the numerous poor and the small numbers of rich. Egyptian economic policy and its administration appear to be leaning in the direction of an improved standard of living and increased educational and health benefits for the Egyptians. The Government has formulated a Five-Year Plan designed to initiate the program for doing away with poverty, disease and ignorance. Under this Plan, Government reserve funds are to be used for its financing. To date relatively small progress has been made.

PALESTINE

In relation to its size and population, Palestine is the most industrially developed country of the Near East. Its industrial development has been based mainly on imported Jewish capital, skills and technique and raw materials. Its industry boomed during the war in meeting the requirements of the British forces in the Middle East. The future of Palestinian industry is however clouded by its high cost of production and by the Arab boycott.

Among the important development projects envisaged for the Middle East, the proposed development of the Jordan River Valley for irrigation and power is a major project. As soon as political conditions in Palestine make progress on this venture feasible, it is hoped that it will be the subject of thorough investigation and implementation, to be designed and operated for the benefit of the people of Palestine regardless of race or religion. The project proposes both the use of the fresh water of the Jordan River for irrigation, and the diversion of sea water from the Mediterranean into the low regions of the Jordan Valley and the Dead Sea for hydro-electric power production.

At the time of the Morrison-Grady discussions, it was thought that American financial assistance for this and other projects in Palestine would be handled by a special loan or grant from the Congress. While that possibility should not be entirely putaside, it may well be that in view of the financial requirements of the European situation, Congress would not be receptive to a development proposal of this kind as distinct from relief or reconstruction. In consequence it might be preferable for the financing to come from the International Bank and from private capital.

SYRIA AND THE LEBANON

The Governments of Syria and the Lebanon are to be encouraged in formulating sound programs of national development to provide a basis for raising the standard of living in the Levant states. A list of the principal projects

contemplated by the Lebanon and Syrian Governments is to be found in Annex 14. Among the projects worthy of encouragement are the Aleppo water project; plans for the irrigation of the fertile Jezirah region and flood control of the Euphrates are considered of particular potential benefit. More doubtful however is the economic soundness of the port development at Lattakia contemplated by Syria. On the basis of available information, the extensive development of this port at high cost for the apparent purpose of reducing Syrian trade through the more natural port of Beirut in Lebanon appears of doubtful economic wisdom.

In the implementation of sound projects of economic development, it is believed the Governments of Syria and Lebanon should be encouraged to look principally to private capital and to the International Bank for financing. For some projects however such as the development of the Beirut airport, it may be possible for financial assistance to be provided through the United States Export-Import Bank.

ARABIA

The average standard of living is extremely low throughout the Arabian Peninsula. The population is largely agricultural, but for the most part resources are not properly utilized and agricultural methods are primitive. It is essential that steps be taken along the following lines: (a) further development of natural resources, such as oil, natural gas, gold, etc., to produce surplus revenues; (b) application of these surplus revenues to such projects as building of dams, drilling of wells, financing agricultural schools and experimental farms; (c) great improvement in transportation, in order to facilitate movements of produce to market and for export; and (d) export of greater quantities of Yemen coffee and Hofuf dates, every effort being made to see to it that the farmers, workers and middlemen get a good share of the profits, rather than having all the wealth accrue to the rich merchants and nobles. The British can be of assistance in helping to raise the standard of living of the people of the Arabian Peninsula by removing restrictions to trade which have grown up around their control of certain strategic areas, such as Aden and Bahrein, particularly in connection with the sterling bloc.

Saudi-Arabia

Fifteen years ago there was virtually no industrial development in the Arabian Peninsula. The Arabian-American and Bahrein Petroleum Company installations are complete now with running water, electricity and air cooling equipment which is among the most modern in the world. As a result of the wealth which they are producing, various economic developments have taken place or are about to spring up. These include the airport at Dhahran, the pier at Dammam, the railroad from Dammam to Riyadh, airports and public utilities in the main cities of Saudi Arabia, and a railroad from Mecca to Jidda to Medina. A brick kiln has been started in the neighborhood of Dhahran. The vast amounts of oil and natural gas, the availability of ocean transportation, and certain amounts of cheap labor available to the oil coast indicate

the prospect that various other industrial enterprises will spring up around Dhahran. These may include a carbon black plant, a glass plant, pottery and textile works and similar projects. Over a period of years it is reasonable to presume that Saudi Arabia will develop industries to supply its own basic needs.

Yemen. The development of Yemen is only just beginning. The country has however, already asked for American help in constructing a harbor, building roads, improving medicine, establishing airports and in various agricultural and irrigation projects. A small textile mill has also been requested. Whereas the future of Yemen will essentially be built around agriculture, there is good probability that the country also contains oil and such minerals as gold, silver, [illegible]per, lead and coal. Primitive industrial establishments, such as pottery-making, glassware, textile-weaving, leather-working and some other industries can be expected to develop.

Other Arabian States.

Kuwait, Qatar, the Trucial Coast, Muscat and Oman are so primitive that any industrial development in these areas, other than the development of oil, will have to wait for some time.

It was long the British policy to keep the people flanking the sea route to India in a state of primitive economy. The United States has rather the opposite point of view, however, and is anxious to develop the agriculture, industry, and trade of an area like the Arabian Peninsula. This is based on the theory that the more developed an area becomes the more it can produce, the more it will buy from the United States and other countries of the world, thereby increasing the sum total of world trade, and prosperity. This American policy of pushing the economic development of the Arabian Peninsula may run counter to British thinking. It should be possible, however, to show the British that our policy is th their interest in the long run.

ETHIOPIA

The Ethiopian Government is anxious to bring about the progressive development of the country. A Planning Staff, headed by an American, is being set up in Addis Ababa, and specific projects are being considered, including the development of a textile industry, sugar mills, and salt works. There is also involved the extension of cotton and sugar growing areas. Plans are being studied for the improvement of the present highly unsatisfactory transportation and communications systems as well as other similar projects. Ethiopia also is extremely anxious to interest responsible firms in the development of her mineral resources.

Ethiopia's development plans are currently severely limited by shortages of dollars and technicians. The dollar shortage arises primarily from the fact that, because of Ethiopia's lack of a seaport, practically all of its

export trade passes through Aden. As a consequence, the dollars earned by the transaction accrue to the Aden pool, and Ethiopia, although not a member of the sterling area, is dependent on the British Treasury for the acquisition of dollar exchange. In view of the peculiar circumstances surrounding Ethiopia's position, we have long been sympathetic to a solution of the problem which would involve Ethiopia acquiring the dollar exchange its exports earn.

Ethiopia has employed many foreign technicians, particularly Swedish, Italian, British and American. Both the United States and the United Kingdom should be prepared to render Ethiopia appropriate assistance in its endeavors to obtain technical assistance for the implementation of any well-considered development plans.

The projected construction of a dam at Lake Tana is of primary importance to Egypt and the Sudan. The benefits to Ethiopia will be relatively secondary but since the location is in Ethiopian territory the Ethiopian Government is necessarily an important factor.

TURKEY

The Turkish economy is over 80% agrarian, and what industry there is (a steel mill and a few cement, textile, glass and other factories) is characterized by (a) Government ownership and control under the Etatist theory, and (b) inefficient high-cost production owing to the fact that political rather than economic considerations have governed the establishment of new industries.

There is need for sounder integration of the nation's economic potentialities, with emphasis on the basic necessities upon which a sound national economy must rest, rather than on spectacular undertakings in imitation of the most modern achievements of more mature Western economies.

An efficient road system is a fundamental requirement of national economic advancement. The $5,000,000 highway program to be undertaken by the United States under the aid program should provide a good start, and it is hoped that the United States Public Roads Administration will be able to follow through with a longer range plan.

On October 2, 1945 the Turkish Embassy presented a note to the State Department requesting a loan of $500,000,000 to enable the Turkish Government "to raise the standard of living of the country and to enable it to play a constructive part in international trade." This figure was considered an unrealistic exaggeration of Turkey's capacity to absorb and service, and was eventually scaled down to a $25,000,000 Export-Import Bank Loan. Recently, Turkey has unofficially let it be know that it intends to apply to the World Bank for a loan of $100,000,000.

The Turkish Government has ambitious plans for economic development in many fields, but their realization involves serious problems of internal

costs as well as foreign credits. The Turks need expert guidance in the planning and execution of economic projects.

IRAN

Prime Minister Qavam has announced an ambitious "Seven Year Plan" for the economic and social development of Iran. At his request, the American firm of Morrison-Knudsen Company has made a general survey and submitted a report covering a wide field of projects.

The most important and most immediately feasible of these are in the agricultural field. Iran is overwhelmingly an agricultural country, and its production could be enormously increased through improved farming methods, better stock breeding, introduction of new crops, and increasing the area of land under cultivation by exploiting undeveloped irrigation potentialities.

In this, and in the other phases of the plan envisaged by the Morrison-Knudsen survey, Iran will need much technical assistance, which will probably have to be supplied in large part by the United States. British assistance, however, should not be excluded.

Iran is planning to apply to the World Bank for funds to implement the program, and British and American support for this application is desirable. Total cost is estimated at $500,000,000, but this, of course, need not be advanced all at once.

AFGHANISTAN

In March 1946 a contract was signed between the Afghan Ministry of Public Works and a subsidiary of the Morrison-Knudsen Corporation, incorporated in Idaho and known as Morrison-Knudsen-Afghanistan (M-K-A). This contract contemplates eight construction projects (roads, bridges, dams, hydro-electric plants and irrigation works); it has a term of approximately four years and provides a fee to M-K-A on a percentage of cost basis.

Difficulties were encountered from the outset. These were overcome, though slowly, with respect to local labor supply, procurement of steel, shipment of construction machinery, en-forwarding from Indian ports, and provision of petrol supplies. Additional difficulties have resulted from the tendency of the Afghan Government to multiply projects and dissipate the efforts of M-K-A in multiple operations. Actual construction began in August 1947 with roads a first priority--almost sixteen months after the arrival of the first Morrison-Knudsen personnel, now totalling about one hundred seventy-five, and after the expenditure of somewhat more than the scheduled four million dollars per year.

Recent rail, transport, and administrative difficulties in obtaining petrol supplies for this operation have apparently been surmounted following the intercession of the United States Embassy, Karachi.

The current problem is the delay of the Afghan Government in meeting four months' advance payments to M-K-A. Apparently however this difficulty has been settled with the payment of 1.4 million dollars to M-K-A for the current expenditure period. Meanwhile the Department was being asked to make inquires of the American Legation in Kabul regarding Afghan financial relations with M-K-A.

The M-K-A is well aware that the Department is much interested in the former's success as an implementation of United States policy. M-K-A has not traded upon its position, but has frequently turned to the Department to clear snags, both in our own Government and in the Afghan Government. Our Government's interest has perhaps vested M-K-A with a quasi-governmental significance in the eyes of Afghan leaders. Certainly failure on the part of M-K-A will reflect weakness in United States enterprise, and retard the implementation of policy in this and in several other fields where the United States hopes to achieve constructive results.

TOP SECRET

THE DOLLAR STERLING PROBLEM

"The Dollar-Sterling Problem in the Middle East" is an appropriate label for an aggregation of problems whose chief feature is shortage of dollars, inconvertibility of sterling assets, or both. In essence these problems constitute a large part of the impact on the Middle East of the World's war-time dislocations, and post-war readjustment difficulties. No complete solution to these problems is to be looked for until Britain has recovered from its financial difficulties, European economic reconstruction has been achieved, and the related problem of the balance of payments of the United States ameliorated.

Current action toward these Middle Eastern problems can largely be only ameliorative. Nevertheless the scope for amelioration is substantial, and provides opportunity for close Anglo-American cooperation.

The character of these problems is clarified by a review, in broad outline, of the developments which have mainly brought them about. Already long before the war a dollar shortage had been manifested. This was in the sense that larger purchases from the US were desired, and presumably would have been made, if local currencies could more readily have been converted into dollars.

This basic problem of the American balance of payments has been seriously augmented by the war, in the Middle East as elsewhere. During the war imports from the United States provided in large measure the only available source for import requirements (aside from such substitutions as local production could provide). European industry was out of the picture, and British production was practically limited to British domestic and military requirements. As a result American commerce "captured the markets" of much of the Middle East, to use a common but misleading phrase. Meanwhile in various Middle Eastern countries, particularly in Egypt, British purchases for the military services resulted in substantial accumulation of sterling credits which could not be expended because of a lack of goods to purchase.

Now there exists substantial demand for imports of many varieties. These include materials for construction and development, and articles and supplies for current consumption. This demand arises out of need for meeting expenditures deferred during the war; out of accumulations of war-time earnings, and perhaps out of certain stimulations to living standards which those earnings ought about.

But the demand meets a shortage of supply. The United States continues to be the principal, sometimes the only source of supply for many items of industrial and other import requirements. In the United States, this foreign demand must compete very generally with heavy domestic demand which the production is often unable to satisfy. Until European production has made great strides in revival, Europe's industries cannot resume their function in supplying Middle Eastern and other foreign markets. Although the British export drive has achieved remarkable size, it is insufficient to meet the urgent requirements of the United Kingdom; its proceeds are as yet insufficient to pay

for Britain's current import requirements of food and raw materials. British exports must go so far as possible where they can earn the currencies needed to pay for British import requirements. They cannot yet go far to liquidate Britain's sterling debts in the Middle East or elsewhere.

In the meantime the physical aspects of this problem of world-wide reconstruction and production are masked by the prevailing phenomenon of dollar shortage and inconvertible sterling. The fact that dollars are limited and hard to get, and that only limited amounts of sterling can be used or converted to dollars for use in making current payments, conceals the underlying fact of production shortage.

Fundamentally therefore the dollar-sterling problem of the Middle East is a facet of the world-wide problem of economic reconstruction, recovery, and readjustment. The frozen sterling credits in the hands of Middle Eastern Governments and peoples, and their difficulties in obtaining dollars in the amounts they would like, is a part of the impact upon them of the problems of recovery from war. Therefore no immediate over-all solution is conceivable. The whole problem has to be worked out.

Nevertheless, there is substantial scope for temporary alleviations and technical improvements which may result in appreciable relief, and which may also contribute to the longer-range solution if technically sound and properly administered. These measures of alleviation include action along the following lines:

1. Increase in United States imports where supplies are available, as for instance increases in our imports of long staple cotton from Egypt by raising the import quota administered by the United States Tariff Commission.

2. Technical and financial measures including improved foreign exchange control, to prevent escape of hard currency earnings and illegitimate capital movements through black markets.

3. Acquisition of more direct control over the dollar earnings from exports to the United States. For instance, the Yemen might recover directly a proportion of the dollars paid for its exports of coffee to the United States through Aden. Likewise, Iraq might improve dollar revenues from indirect exports of wool to the United States through Syria or from date exportations through the British date monopoly. Nevertheless in considering such possibilities, it must be borne in mind that these do not necessarily give rise to new supplies of dollars; in so far as they constitute a diversion of dollars from British or other recipients they augment the dollar difficulties of the latter.

4. To the extent it may be found appropriate in specific cases, alleviation may be achieved through international financing. Possibilities include recourse to the International Monetary Fund, to the International Bank, and to the Export Import Bank, wherever the circumstances are such as to make such financing feasible and acceptable.

5. Finally, there is the possibility of devising ways and means to encourage the resumption of private financing, particularly to tap United States resources of private capital export. Until great advance has been made in reestablishing the conditions of political stability and international security necessary for such outflow of private capital from the United States, no great results are to be expected. Nevertheless it is not too early to consider the possible projects and the ways and means by which this flow might at least be persuaded to begin.

The character of the dollar sterling problem in certain Middle Eastern countries, where this problem is particularly acute, and in certain other countries where it is not equally acute but takes a different form, is outlined in the following sections.

EGYPT

During the war years Allied military expenditure in Egypt more than offset the unfavorable balance of trade and resulted in a heavy balance of payments in favor of Egypt which is now represented in Egypt's sterling holdings of approximately £450 million. Those balances, in effect a war debt of the United Kingdom, were nonconvertible during the war, and the settlement of their future status has created a serious problem for Egypt and the United Kingdom, as well as for other countries having financial relations with both. American dollar expenditures were a relatively small part of the Allied military expenditures and were probably insufficient to offset Egypt's unfavorable balance of payments position with the United States. Now that American military expenditure has ceased Egypt remains in an extremely unfavorable balance of payments position with the United States.

Were Egypt able to liquidate its sterling balance by conversion, the Egyptian balance of payments would be considerably relieved for some years. This however is presently out of the question. In any event, Egypt must sooner or later remedy its balance of payments problem by other measures. These include expansion of exports and decrease of certain import requirements. For instance, development of the local production of nitrate fertilizer through the use of hydro-electric power in Egypt would reduce or remove a substantial foreign exchange expenditure now required for fertilizer imports. Expansion of other local industries would have similar effect were it not that importation of the necessary machinery and equipment would provide a drain on current exchange resources.

Since 1930 Egyptian imports from the United States have exceeded exports to the United States in increasing measure. Present annual minimum dollar requirements of Egypt in excess of current dollar earnings amount to approximately $30,000,000. The principal means by which this might be alleviated would be expansion of United States imports of Egyptian long staple cotton.

The United Kingdom and Egypt have discussed the settlement of the blocked sterling balances, but so far have effected only a temporary agreement providing for the free conversion into other foreign exchange (including dollars) of only a small part (£8 million) of Egypt's sterling holdings during the remainder of 1947. Egypt had hoped to attain a favorable long-term agreement on the bulk of the balances by the end of 1947. Under the Anglo-American

financial agreement of 1946, current earnings of sterling became convertible on July 15, 1947. The convertibility of current earnings as well as of the $3 million of sterling marked for conversion under the temporary Anglo-Egyptian agreement of 1947 was, however, suspended as part of the general suspension of sterling convertibility in August 1947.

Egypt's exchange situation is now chaotic and unless remedial measures are forthcoming her imports from the United States will be seriously curtailed. Egypt has recently withdrawn from the sterling area.

Because of Egypt's close tie with sterling and the sterling area much of the pre-war trade pattern was oriented toward the United Kingdom. This situation changed somewhat during the War. United States brands, brand names and machinery became more familiar to the Egyptians. Continued scarcity of dollar availability will result in a return of the Egyptian trade pattern back into the sterling area.

The expanded post-war exportation of Egyptian products is not sufficient to pay for the accumulated deficit of import needs which have accrued during the period of war-time non-supply. Egypt's holdings of sterling can finance the purchase of its post-war needs to the extent that they are available from sterling areas, but lack of convetibility makes it impossible to utilize this credit for procurement in hard-currency areas.

A statement of the immediate position with respect to Egyptian sterling resources and dollar requirements, possible measures of alleviation, and the point of view of the American Embassy in Cairo on the subject is expressed in a telegram No. 1182 of October 3, from the Embassy Cairo, Annex 15.

IRAQ

Iraq's currency is tied to the British Pound and guaranteed by Sterling investments which are deposited in London and administered by an Anglo-Iraqi currency control board. In the course of the war, Great Britain incurred an indebtedness to Iraq amounting to approximately 65,000,000 Pounds Sterling. About 66% is in the form of currency reserves and the remainder is held principally by private banks and individuals.

Under Iraq's financial agreement with the United Kingdom, hard-currency earnings must be repatriated and turned over to the dollar-pool within six months of their accrual. Hard currency allocations to Iraq are limited to an amount subject to Anglo-Iraqi agreement, which will probably however not reach the total of $14,000,000 a year desired by Iraq. The controls are administered by a British committee in Baghdad, consisting of a British controller, and the British Advisers to the Ministries of Supply and Economics. Theoretically the function of the committee is advisory, and actual apportionment of the available amounts of hard currencies is in the hands of the Ministry of Supply. However, the committee issues all the regulations, and the control may be considered British for all basic policy and administrative purposes. There is no mail censorship, and no adequate control of repatriations,

so that the leaks are numerous and may amount to 5 to 10% of total transactions.

Whether Iraq has an actual hard-currency deficit is almost impossible to determine. There has been a regular net purchase of dollars from the Bank of England through the Exchange Control Committee. Estimates by the Committee at the end of 1945 placed the net figure for 18 months at five million dollars, allowing for the prospective dollar receipts and expenditures committed but not then completed. The British controller has not yet attempted a similar summary for 1946, but he believes the apparent dollar deficit will probably not be so large as before in view of the slow arrival of goods from hard-currency areas. His rough estimate is $2 - $4 millions. However, the transactions passing through the exchange control do not give a complete picture.

1) Unreported dollar earnings through false invoicing of exports are thought to be substantial.

2) Substantial amounts of Iraqi wool in United States bonds have been accumulated but not yet disposed of.

3) Oil royalties and fees are paid in sterling. The current destination of the oil (probably not to hard-currency areas to any significant extent) is not known.

4) The ultimate exchange-earnings from the important date exports are difficult to trace. They all pass through the British date monopoly.

5) Cereal financing, presumably partly in United States and Canadian dollars through UNRRA but handled through the British Army and paid in sterling, is difficult to assess.

Under the circumstances, it would be difficult to conclude that Iraq had earned significantly fewer dollars for the sterling area pool than Iraq had received from the pool. It would be even more difficult to assume that in the absence of British controls on the direction of Iraq exports, there would be [illegible] an apparent dollar deficit.

It is possible that means may be found to increase the total sum of dollars above $14,000,000 per year made available to Iraq from the Empire dollar pool. The growing availability of exchange to Iraq, resulting from increased exports and oil royalties may lead to this. It is pertinent to note in this connection that the Iraq Petroleum Company is now constructing two 16-inch pipelines which on completion in 1949 or 1950 will permit tripling of production. Iraq's need of items from the United States, particularly agricultural machinery, is acute, and the national economy would be strengthened through the purchase of this and similar commodities. Supplies of consumers' goods that are presently available only from the United States are

also urgently needed in Iraq, and their acquisition would have the effect of lowering the inflated cost of living.

A more detailed account of certain aspects of Iraq's dollar sterling problem is contained in a letter of September 19, 1947 addressed to the American Ambassador at Baghdad by the United States Treasury representative for the Middle East, and reproduced as Annex 16 together with its enclosure, an account by the Treasury representative of his conversations at the Ministry of Finance, Baghdad, September 8-11, 1947.

TURKEY

Turkey has accumulated a fairly substantial volume of inconvertible sterling credits, estimated to approximate £15,000,000 sterling.

The Turkish Government has recently given indications that its commercial activities with the United States are being hampered by the recent suspension of sterling convertibility. In the case of a $6,000,000 contract with the United States Commercial Corporation for cotton textiles being manufactured in Germany, the Turkish Government has announced that it will be compelled either to pay in sterling or to cancel the contract because of a "critical United States dollar shortage" resulting from the suspension of convertibility.

This may be the forerunner of similar financial difficulties, as there has recently been a serious drain on Turkey's once ample gold and dollar holdings.

SYRIA AND THE LEBANON

In Syria and the Lebanon the exchange problem is a dollar-franc rather than a dollar-sterling problem.

As a result of expenditures by the French and British Armies during the war, Syria and Lebanon acquired franc credits estimated roughly at 16 billion French francs (including the franc equivalent of roughly 15,000,000 Pounds Sterling, absorbed by France). The Syro-Lebanese currency is tied to the French Franc; the entire backing for the 320,000,000 pounds in circulation is in the form of French francs, whereas most other Near Eastern countries have Sterling backing for their currencies.

The French allocated approximately $14,000,000 in dollar exchange to Syria and Lebanon during 1946 and are allocating roughly the same amount during the current year. This sum is inadequate to enable the Levant States to finance imports of agricultural and industrial machinery and equipment needed from the United States. In 1946 the French also allocated 5,000,000 Pounds Sterling to Syria and Lebanon, divided equally between the two. The same amount is being allocated in the current year. Prior to 1946, Syro-Lebanese pounds were freely convertible into sterling for the purchase of imports.

Imports from the United States are much larger than Syro-Lebanese exports to the United States: imports in first nine months of 1946 totalled

over 16 million dollars (compared to roughly 10 million dollars for the entire year 1945); exports to the United States amounted to approximately 6 million dollars for the first nine months of 1946 (compared with one quarter of a million dollars in the same period of 1945). Increased availability of dollar exchange to Syria and Lebanon would augment their resources for the purchase of American capital equipment, and of consumer goods which would tend to lower the inflated cost of living. It is understood that conversations will take place in Paris in the near future between the French on the one hand and the Syrians and Lebanese on the other.

A major concern of both the Syrian and Lebanese Governments has been to find means of ending the dependence of the Syro-Lebanese currency on the French franc and to establish it on a sounder basis controlled at Damascus and Beirut and in the International Monetary Fund, instead of by decisions taken in Paris.

FRENCH NORTH AFRICA

French North Africa's yearly dollar deficit is made up by France. It has been roughly estimated that, through 1949, the amount required will be about 250 million dollars. It is believed that France, when requesting additional economic and financial assistance from the United States under the Marshall Plan, should ask that the amount which she will need for North Africa should be specifically earmarked for that area. In this way, France will receive credit for looking after the welfare of the North Africans, the officials who have the responsibility for administering the economic life of the area will have a more or less definite idea in advance of how much money will be available for that area, and, finally, the assistance required by French North Africa will not be subject to the whims of successive French governments.

SAUDI-ARABIA

Although the dollar-sterling problem does not directly affect Saudi Arabia, there is a financial problem in which Great Britain could be very helpful to us. The contract between the Arabian-American Oil Company and the Government of Saudi Arabia stipulates that the oil royalty shall be "four gold shillings per ton". This means that royalties are actually paid either in gold sovereigns or in their dollar equivalent.

The problem arises from the fact that gold sovereigns are not available. ARAMCO claims the dollar equivalent of a gold sovereign should be based on the London, European or United States rate, which is $8.50 per sovereign. The Government of Saudi Arabia on the other hand says the figure should be $14.50, which is the present rate in Jidda. In spite of the fact that Mr. Moore, President of ARAMCO, spent the entire summer working on this problem, no agreement was reached and the entire development program of Saudi Arabia is temporarily held up because of the impasse.

If the Oil Company can get gold sovereigns the problem would be solved, but few are available. ARAMCO has offered to buy gold in South Africa, ship

it to England and pay all charges if the British will mint sovereigns from it. This, the Government of Great Britain has definitely refused to do on the grounds (a) that the mint was busy, (b) sovereigns can not be minted outside the United Kingdom, (c) the British Treasury does not wish to start a flow of gold into the Near East, and (d) the action would conflict with International Monetary Fund policy. Unless the British make gold sovereigns available ARAMCO is faced with a difficult problem. Were it to meet the terms of the Saudi Arabian Government, the result would amount virtually to a 75 percent increase in royalty on oil received by that government. This would eventually result in upsetting the price and royalty structure for all Near East oil.

YEMEN

The Dollar-sterling problem affects Yemen since much of its exports reach the outside world through Aden, where they are sorted, packed, etc. For this service Aden takes such dollars as may accrue on these shipments and gives Yemen pounds. Some arrangement should be worked out with the British authorities in Aden, whereby a substantial percentage of such dollars would be made available to the Government of Yemen. This total might amount to between $250,000 and $400,000 a year and would make a considerable difference in Yemen's financial relations with the United States.

It would however tend to increase in equal measure the British exchange problem, unless more direct trade relations could result between the Yemen and the United States which would augment the volume of commercial exchange and thus increase the flow of dollars.

AFGHANISTAN

As of December 1945 Afghanistan had official gold and dollar holdings in the United States of approximately 45½ million dollars. During 1946 these are presumed to have increased because of the active market for carracals. However in August 1947 official gold holdings in the United States by Afghanistan were reported by the United States Treasury at $33,000,000. This reduction appears to be explained as follows:

Beginning in late 1946 several adverse factors have been reflected in the Afghan exchange position. The most important of these factors was the serious break in the New York carracul market. In July 1947 the Minister of National Economy stated that there had been a dis-balance of exports ($35,000,000) as against imports ($47,000,000) in the past 14 months, causing a serious drain on Afghan exchange reserves. This would correspond fairly closely with our own Treasury figures indicating a decline from 1945 holdings of 45½ million to August 1947 gold holdings of 33 million.

Additional drains on Afghan exchange reserves include payment for services and equipment, such as approximately 6 million to the Morrison-Knudsen Company.

The disruption of transport in the Indian Peninsula together with large inventories of cereals on hand in the United States are other factors which lead the Minister of National Economy to anticipate curtailments in dollar earnings below normal for a year or two hence. (A figure of $35,000,000 might be taken as normal for dollar earnings).

Afghanistan is not known to have any considerable sterling balances. Rupee exchange has been relatively free, the official rate of exchange in July having been 4 afghanis to the rupee, as against a black market rate of 4½ to 5.

TECHNICAL AND ECONOMIC AID TO MIDDLE EASTERN COUNTRIES

By various means the United States and the United Kingdom have been and are rendering technical and economic, including financial, assistance to the countries of the Middle East to aid them in handling local problems. This assistance has taken many different forms. In some cases it is rendered by the Governments, in others by private interests. A survey of the principal items of such aid indicates its nature. This survey excludes the special programs of United States aid to Greece and Turkey.

An important means of providing American technical assistance to Middle Eastern areas will become available if and when legislation is enacted by the Congress which will enable the Department to supply American technical personnel in response to requests from Middle Eastern Governments, on the same basis that such technical assistance is given to the American Republics.

TURKEY

Since VE Day the United States has extended to Turkey an Export-Import Bank credit of $25,000,000, a Surplus Property credit of $10,000,000 and a credit of about $5,000,000 for the purchase of four war-built merchant ships. In addition, six other merchant ships are being sold to Turkey under the authority of Public Law 75, but this is a cash sale. A Lend-Lease settlement was negotiated whereby Turkey acquired title to Lend-Lease property with an original war-time cost of something like $50,000,000, for a cash payment of $4,500,000.

Turkey has employed two American technical advisers for the Turkish State Railways and is seeking other experts to assist in different phases of transportation. The International Telephone and Telegraph Company has sent three men to assist in modernizing the state-owned telephone system. The Turks are anxious to have further technical assistance from the United States, either through private firms or through the Government. (Under the Greek-Turkish Aid Bill, the United States Government has authority to detail government officials to assist Turkey.)

ETHIOPIA

1. Assistance from the United States.

   A. During the war years, the United States Government supplied the Ethiopian Government with approximately $6,500,000 worth of land-lease aid. Of this, about $5,800,000 was accounted for by military equipment. Ethiopia is at present being asked for settlement of this debt to the extent of $200,000.

   B. By a separate agreement, approximately $4,100,000 worth of silver was loaned to Ethiopia and was minted into silver coins. The Ethiopian Government is obligated to return this silver, ounce for ounce, within five years from the end of the emergency.

   C. The United States Government extended to Ethiopia two lines of credit, totaling $1,000,000, for the purchase of surplus property. Approximately half of this credit has been utilized.

D. In 1946, an Export-Import Bank loan of $3,000,000 was made available to the Ethiopian Government.

E. During the war, the United States Government sent a technical mission to Ethiopia to advise the Emperor of ways and means by which Ethiopia could be rehabilitated and developed. The report of this mission has not yet been furnished to the Ethiopian Government due to the dissatisfaction of the Department with some of its provisions.

2. British Assistance.

A. In accordance with the provisions of the Anglo-Ethiopian Treaty of 1942, the British Government furnished the Ethiopian Government with a subvention totaling £2,500,000 during the years 1943 and 1944. The subvention ceased after the negotiation of the new Anglo-Ethiopian Treaty in December 1944.

B. In addition to the foregoing assistance, the British Government, through the medium of the British Council, has assisted the Ethiopian Government from time to time with teaching personnel and other educational help.

EGYPT

United States aid actually provided to Egypt is limited to the sale of $7,900,000 of surplus property, part payment for which is being received in property for consular establishments, the remainder to be made available in Egyptian pounds for United States Government expenditure. However, the Export Import Bank has authorized a loan of $5,600,000 for fertilizer industry development; actual drawings against this authorization have not yet been made. Egypt has expressed an interest in obtaining financial aid for work on the Egyptian state railways (roughly $4,000,000).

If and when enabling legislation permits we plan to aid Egyptian economy by assisting it to obtain American technicians and experts. It is hoped that the implementation of the Marshall Plan will not prevent the development of United States trade and the use of United States materials and technical skills in building up Egyptian industrial economy.

ARABIA

Some assistance has been rendered through Export-Import Bank loans within this area and there may be some prospects of International Bank loans. However, private capital is being relied upon in this area as the chief vehicle for American economic participation in economic development, in view of the predominance of petroleum in the natural resources of the peninsula.

IRAN

The American Embassy in Tehran has advised the Iranian Government that the United States will support Iran in its application for an International Bank loan covering projects calculated to raise the general standard of living.

British economic assistance to Iran at the present time appears limited to the interests of certain engineering firms in important public works projects in urban centers.

PETROLEUM IN THE MIDDLE EAST

The major American economic interest in the Middle East relates to the development and exploitation of petroleum resources. In addition there are some questions involving petroleum transportation and marketing.

The major petroleum developments of the area are in Iran, Saudi Arabia, Iraq and other Arab States on the Persian Gulf. Exploration for petroleum resources is active however, in other Middle Eastern areas, including Egypt, Palestine and Ethiopia, and to a moderate extent in Libya, Turkey and Afghanistan. In Iran of course, the Anglo-Iranian Oil Company is the outstanding producer; the question of a concession to the USSR in the north is a serious and delicate matter. Oil marketing questions in the area involve principally Egypt and are primarily an aspect of the problem of dollar shortage and inconvertible sterling. Oil transportation problems concern principally the construction of pipelines from Saudi Arabian and other Persian Gulf sources to the Mediterranean.

The importance of oil production to the economic life of the primitive pastoral states of the Arabian Peninsula can not be overestimated. Although private companies are being relied upon to see to the development of this oil, it is important to the United States and United Kingdom that the Companies handle their labor relations in a modern manner, and if at all possible that the enormous royalties to be derived from these oil concessions be used in a way that is most beneficial to the peoples of the countries where the oil is found. It is important that the Americans refrain from engaging in other activities that assume proportions of dominating the local economics, and that they plan to release acreage under concession which they have no reasonable anticipation of developing.

PIPELINES

It is essential that Kuwaiti and Saudi Arabian oil be brought to the Mediterranean as cheaply and easily as possible. The Trans-Arabian Pipeline Company, a subsidiary of ARAMCO has been formed and has obtained the right of way for a pipeline to run from Dhahran through Transjordan and Syria to Sidon in Lebanon. Kuwait oil will be tapped into a new pipeline which is being built from Abadan. The facilities of IPC are being enlarged.

The chief immediate problem relating to the construction of the pipelines is the supply of steel pipe, due to competing domestic requirements in the US. With our strong support, however, an export allocation for an initial 20,000 tons of pipe during the first quarter for the ARAMCO project from Saudi Arabia to the Mediterranean has been issued, so that construction can be initiated.

It is understood that an application is being sponsored informally by the Standard Oil Company of New Jersey to the Export Import Bank for a loan to cover the construction of the Middle East pipeline to transport oil from Kuwait and/or Iran to the Mediterranean.

SAUDI ARABIA

The Arabian American Oil Company, a 100% American owned corporation, is now holding the Arabian concession which covers oil in most of the probable oil bearing areas in that country. Approximately 1200 Americans live at Dhahran where the general offices are located, at Ras Tanura on the Persian Gulf where there is an oil refinery and a loading pier, and at Abqaiq, the largest oil field in the area. Approximately $150,000,000 has been expended by Standard of California and the Texas Company, the original owners of ARAMCO, and has gone into pipelines, wells, refinery and housing and other accommodations for the workers and officials of the Company. Standard of New Jersey and Socony Vacuum are negotiating for a substantial interest in Aramco. Around 265,000 barrels of oil a day are being produced at the present time. A pipeline has just been started from Dhahran to Sidon on the Mediterranean. On its completion production will be stepped up to more than 400,000 barrels a day. Present royalties are running at the rate of $19,000,000 a year and it is expected that they may reach $50,000,000 at the end of ten years. About 7,000 Arabs are employed directly by the oil company.

It is essential that the development of this enormous natural resource be allowed to continue and that the United States and other friendly nations have access to it. For this to occur, it will be necessary to keep the goodwill of the King and other important Saudi Arabs and to prove to them that American business initiative is developing the oil of Saudi Arabia in the best possible way for the Government and people of that country. If the present trend of developments is not upset by political happenings in Palestine, or by Russian infiltration from the north, and if the royalties are used constructively to advance the interest of the country as well, then the future of the Saudi Arabian oil concession is very great.

BAHREIN

The Texas Company and Standard of California also own Bahrein Petroleum Ltd., which is exploiting the resources of Bahrein Island, much more limited than those of Saudi Arabia. Here American business initiative and British skill are working together in a way to provide the natives of the island with order, medicine, education and a rising standard of living.

The concession agreement, under which a certain amount of the royalties are set aside to be used by the British on improvements, should be studied in connection with drawing up contracts for oil development in other parts of the Peninsula.

KUWAIT

The Gulf Oil Company has a half interest in Kuwait Oil Company, Ltd., Although the British have long objected to the exploitation of this field, the demand for oil has now become so great that it can be expected Kuwait will soon become a major producer. Like Bahrein, Qatar and the Trucial Coast, the Government of Kuwait has placed the handling of its foreign affairs in the hands of the British, a factor which complicates the economic as well as the political picture in those areas. No concession has as yet been granted for the Kuwaiti half of the Kuwait Neutral Zone. Besides the Iraq Petroleum Company, the Royal Dutch Shell Company and several American Oil Companies are actively negotiating for this potentially rich concession.

QATAR

The sparsely habited promontory of Qatar, the six petty Shaikhdoms which make up the Trucial Coast, and Oman & Muscat are under concession to Petroleum Development Company Ltd., a subsidiary of Iraq Petroleum, in which Socony Vacuum and Standard of New Jersey each have 11.75% interests. Development work has at last been started in Qatar, and it would be desirable to induce Petroleum Development Company, Ltd., either to start work in their other areas or else to relinquish its concession.

YEMEN

There is reason to believe that there is some oil in Yemen, although the area has been little prospected. No concessions as yet have been granted there. Superior Oil and the American Independent group are both interested in a concession. It seems probable that within the near future, American oil interests will be prospecting in Yemen.

IRAQ

Development of petroleum resources of Iraq has been active for a longer period than in other Arab States. The Iraqi Petroleum Company was organized as an international consortium based on shares in oil and is owned 23.75% each by Anglo-Iranian Oil Company, Anglo-Saxon Petroleum Company, Compagnie Francais de Petroles, Near East Development Corporation and 5% by Mr. C.S. Gulbenkain. While production of petroleum and its exportation through pipelines to Beirut and Haifa have been in active operation for some years, it is believed that the

petroleum resources of Iraq should be developed on a broader scale than heretofore with a view to augmenting the means for economic development of Iraq and safeguarding its interests. For the purpose of assuring the producing country equitable benefits and reasonable compensation for the contribution of its natural resources, it is felt that the Iraq Petroleum Company should market low-cost indigenous products in Iraq at prices computed in relation to local costs of production, refining, and marketing; that labor should be fairly and reasonably compensated, that maximum employment should be effected of local native skills, that training programs should be instituted and that other measures should be initiated which would strengthen the local economy and raise the otherwise relatively impoverished standard of living.

EGYPT

Egypt produces approximately 1 million tons of oil per year. Refining capacity is 1 million tons. Consumption is 2.5 million tons, thus making Egypt rely on imports for 1.5 million tons a year. Refineries furnish all Egyptian needs in gasoline, butane and asphalt. Stocks approximate two months consumption.

Present exploration for oil is proceeding actively (4 wildcats are currently drilling; 7 geological and geophysical crews are operating). The possibilities are extremely remote, however, that Egypt will become a world source of oil on the scale of Iran, Iraq, Kuwait, Qatar or Saudi Arabia.

Obstacles have arisen against US oil companies marketing in Egypt. The major USoil company in Egypt has pointed out that after October 15, it may be forced to suspend shipments of oil to Egypt. This is understood to be due to the British ruling that any British company in the area may buy Persian Gulf oil with sterling but that the US companies must pay for the same oil in dollars. Since the Egyptian government is not in a position to convert proceeds of company sales into dollars and thus permit US companies to replenish their supplies, this ruling is jeopardizing the operations of US oil companies in Egypt and the Egyptian supply of incoming oil. The Department has been requested to protest this discrimination. A temporary arrangement has been worked out between Socony and the Egyptian Government so that Socony will continue in the market and receive limited dollar remittances.

LEVANT STATES

The oil resources of the Levant States are unproven. A portion of Lebanon and the larger part of Syria are under concession to the Iraq Petroleum Company. In view of the

extensive proven resources in Saudi Arabia and Iraq, the low cost of their exploitation, and current plans for their imminent development, it is considered likely that the oil exploration in the Levant States will be limited within the foreseeable future.

PALESTINE

Drilling is now being conducted by a subsidiary of Iraq Petroleum Company in Southern Palestine. Thus far Palestine's oil resources are unproven.

A pipeline from the oilfields in Northern Iraq terminates at Haifa where there is a refinery. The latter has suffered damage on several occassions as a result of the political troubles in Palestine.

ETHIOPIA

The Sinclair Oil Company has a concession for the development of Ethiopia's oil resources. The Company is now rapidly moving equipment and personnel into Ethiopia, preparatory to commencing active drilling operations in the Ogaden Province in the near future. This operation raises several points involving British and US cooperation:

1. The maintenance of law and order in the Ogaden district in the event that the British withdraw in the near future.

2. Pipeline rights in neighboring British territories in the event that the Company finds oil.

3. Ethiopia as a possible alternate source for oil in the event of trouble in the Middle East.

LIBYA

The Standard Oil Company of New Jersey (Egypt) has undertaken to do geological survey work in Cyrenaica. Late in July 1947, however, the British Military Administration authorities in Libya requested that this activity cease. The action of the military authorities is believed to be based on a ruling of the British Ministry of Fuel and Power that prospecting for oil is prohibited.

The prospects for discovering oil in Libya are considered to be fair, and some of the other oil companies are interested in doing geophysical work in Libya. To date, however, the Department has not been asked to intervene with the British Government in an effort to obtain permission for the companies to undertake exploration work.

TURKEY

There is no commercial production of petroleum in Turkey at the present time. The Turkish Government is carrying on oil exploratory activities in some of the more promising areas of the country and has recently engaged the technical services and equipment of an American firm on a contract basis. One small well is in operation with another soon to be sunk. Any oil industry that may be developed in the future will almost certainly be under the ownership and control of the Turkish Government in accordance with long-established Turkish policy on all domestic petroleum activity.

IRAN

I. British and US Attitude Toward Iranian Oil Concessions to the USSR.

While the US and the UK agree that any Soviet oil concession in Iran would doubtless lead in the direction of Soviet domination of Iran, there are certain divergencies of view between the two Governments as to how best to meet the current Soviet demand for an oil concession in Iran. The official position of the United States is that Iran should make its own decision and we will support them in their choice. The United Kingdom on the other hand have indicated the view that Iran would do well, should the Majlis desire to refuse the Soviet oil concession, to mollify the Soviet Union in some way by leaving the door open to further negotiations.

While Mr. Bevin has stated that he desires that the United Kingdom keep in step with the United States in this matter, and while the Foreign Office and State Department officials seem to share the same views, it is probable that Mr. Bevin is responding to pressures of the Labor Party and British oil interests in directing that a mild British stand be taken in this case. The United States and the United Kingdom are at one in their resolve to support action in any justifiable charges of Soviet interference in the internal affairs of Iran.

II. Future Oil Concessions in Iran.

We understand that the four leading American companies, since the recent arrangement of two of them with the Anglo-Iranian Oil Company for the procurement of petroleum from the British concession, have expressed a disinterest in any oil concession in Iran within the near future, and have stated the view that they would welcome an attempt on the part of the Iranian Government to develop its own oil resources in open areas within the next fifteen or twenty-five years. Some small independent American companies are understood still to have an

interest in obtaining a concession in Southern Iran. US petroleum policy, as embodied in the Anglo-American Petroleum Agreement pending before the US Senate, contemplates respect for existing concessions (AIOC) and lawfully acquired rights.

British oil interests have expressed no concern over an new oil concession in Iran since the negotiations which broke down late in 1944. The British are, however, quite concerned with the possible effect of Iranian petroleum policy upon present British holdings in Southwestern Iran.

Technically, at least, a change in present Iranian law would be required to permit negotiations for any new concessions. The Iran-Soviet agreement of April 4, 1946 was of dubious legality, and we have taken the position that American firms should not attempt to circumvent Iranian law in any similar fashion.

AFGHANISTAN

An Afghan concession to an American Company (Inland Exploration Company Seaboard Oil) for development of known oil deposits was allowed to lapse with the onset of World War II. Since the war, repeated Afghan efforts to interest American developers have been unsuccessful. In 1946 the Afghans proposed to exploit their oil themselves but with American technical advice and equipment. Later this plan was suspended in view of Soviet sensitiveness. The Afghans have recently revived plans for oil and mineral development with an offer to grant concessions on a basis of up to 50% outside (American) investment.

Noteworthy aspects of the petroleum situation in Afghanistan are as follows:

1. Hitherto Afghanistan has depended upon outside supplies - Soviet, Indian, or both.

2. The normal supplies through India are presently critically deficient. Of the normal monthly allocation of 300,000 gallons of gasoline, less than 100,000 gallons were received during July.

3. The Afghan program of economic development, involving the operation of an American construction company, is endangered unless an additional supply of 200,000 gallons of petroleum monthly can be assured.

4. Alternatives to which Afghanistan may resort include:

   a. A deal with the Soviets,
   b. Some arrangement for Iranian supplies,
   c. Augmentation of supplies from Pakistan,
   d. Development of internal sources.

Of these alternatives, b and c require a considerable expansion of road transport facilities. They also require smooth working relations with the neighbor countries, which are now problematical.

Alternative d is at best a long range solution. Also, oil resources and minerals which the Afghans wish to develop with American aid, lie North of the Hindu-Kush in an area which the Soviets regard as a preserve closed to other foreigners than themselves. The Afghans have assured the Soviets there are no spheres of influence in Afghanistan, and show a determination to exploit their oil even though doing so suggests difficulties which might parallel those of Iran. The US response to the latest Afghan approach is thus a matter calling for a careful formulation of the United States position. This is being put in process.

TOP SECRET

DEVELOPMENT OF U.S. AVIATION IN THE MIDDLE EAST

In general, no very serious problems affect the development of United States aviation policy in the Middle East. On the whole the development of intergovernmental aviation relations, agreements, etc., and the development of the United States overseas aviation network are proceeding satisfactorily in the area.

A principal exception with respect to intergovernmental relations may perhaps be seen in the circumstance that it is not considered judicious to press the Middle Eastern Governments, which are members of the Arab League, for action in regard to air conventions, etc., at the present time when their general attitude toward the United States is affected by the Palestine problem.

With respect to the aviation network, there are some individual circumstances to which attention should be called. These are indicated below under country headings.

SAUDI ARABIA

The Saudi Arabian Airline, owned by the Saudi Arabian Government, began operation in the spring of 1947. It is operated by TWA on a technical assistance contract basis. The aircraft (approximately five Douglas DC-3's) were purchased from U.S. Army surplus by the Saudi Arabian Government. Under the terms of their contract, TWA has organized and operated the airline and supplied experienced American pilots, mechanics and operational personnel.

Although officials of the Saudi Arabian Government were anxious to have an airline and promised full cooperation, it has been extremely difficult to induce them to abide by the terms of their contract with TWA in supplying facilities and living and working quarters for the American personnel, and in allowing planes to be utilized for definite scheduled airline operation. On several occasions a scheduled flight was set up and the plane booked to capacity with passengers and cargo, and then at the last minute the crew was informed that the plane would not be allowed to take off, "because the King might want to use it". In other instances scheduled departures have been delayed for hours at the request of the Government awaiting the arrival at the airport of one of the Saudi Arabian princes who was to make the flight as a passenger. It is hoped that in due time the situation will improve and that the interference on the part of the Saudi Arabian officials will be overcome, to the extent that the airline will be able to operate without such hindrances.

The scheduled service operates between Dharan, Ridyadh, Jidda and Cairo, thus providing much needed transportation between these centers. As the so-called scheduled service has been operative only over a period of the past three or four months, it is still too soon to ascertain whether or not it can be made to function on a satisfactory and profitable basis.

During the pilgrimage season special flights are planned between Saudi Arabia and the various Middle Eastern countries, providing air transportation for the pilgrims, which should prove to be profitable.

Recently the Saudi Arabian Government signified a desire to employ an American, experienced in general aviation matters, to serve as Civil Aviation Advisor in Saudi Arabia. Through assistance rendered by the Department of State a qualified person has been found to fill this position. If he is eventually employed by the Saudi Arabian Government, it is believed that his advice and influence will do much to enable the Saudi Arabian Airline to operate on a satisfactory basis.

EGYPT

The Misr Airline (the only Egyptian airline) has operated since 1931. Prior to World War II it was the leading airline in the Near East and its efficiency and reputation were quite good, but during and since the War its efficiency has decreased considerably. The airline had been using small British six passenger aircraft, many of which were old and in poor mechanical condition. It obtained several new British aircraft (Anson 19's) but experienced several accidents over a two year period during and immediately after the War due mainly to inefficient maintenance and operation. It also experienced considerable labor difficulty owing to the low scale of salaries paid to pilots and mechanics. About a year ago the pilots and mechanics struck. After a period of about a month the mechanics returned to work but most of the pilots refused to return and it has been necessary for the airline to borrow pilots from the Egyptian Air Force. During the past 18 months it purchased and put into operation five new twin-engine six passenger Beechcraft (American) Aircraft which it is using on its international services to Lydda, Baghdad, Beirut, and Cyprus. The acquisition of these planes has improved the service somewhat but the Company's reputation and efficiency of operation are still unsatisfactory. Owing to lack of confidence on the part of the traveling public its traffic revenue has been extremely low for the past two or three years but its financial position is considered to be sound.

If the Misr Airline would be willing to cover the expense (probably not over $15,000 to $18,000 for travel and salaries), an experienced American airline operations expert could be

obtained in the U.S. who, with cooperation on its part, could assist it in reorganizing its operations and establishing them on an efficient and profitable basis.

IRAQ

The Iraqi Airways appears to be functioning with adequate efficiency and with satisfactory financial results. It is not thought that any action is necessary at the present time in regard to the progress of this national airway.

LEVANT STATES

The national airways of Syria and Lebanon are of small concern and it is not believed that extensive development is contemplated in either country. However, it is important that wholly inadequate airport facilities in these states, such as in Beirut and Damascus, be modernized in order to accommodate the needs of international aviation traffic. Credits for facilities at Beirut are being sought from the Export-Import Bank.

GREECE

Fairly adequate internal operations are maintained by TAE, the Greek national airlines, a private company in which TWA and BEA (British European Airlines) are actively participating. The principal interest of the United States is that the service be maintained. TWA has offered to buy out BEA's interest if the latter wished to withdraw.

International air service is maintained by TWA and BEA and is at present satisfactory from the viewpoint of the United States. We hope that Middle Eastern states will not permit operations by Soviet satellite airlines except on a completely reciprocal basis.

IRAN

"Iranair", the only Iranian airline, has a technical assistance contract with TWA which has, however, been largely nullified by financial difficulties encountered by the company. These difficulties have prevented repayment of funds advanced by TWA and produced disagreements between the parties. They have also prevented repayment of credits granted by FLC for the purchase of aircraft. It is believed the solution for these financial problems would be facilitated if the Iran Government would take a more active interest in national aviation affairs, including the operations of Iranair.

Unless its revenues can be increased, Iranair may be forced to go out of business or else merge with the British-sponsored "Eagle Airways". Eagle, which has already been formed on paper

but is not operating, has agreed in principle to the need for a division of air traffic with Iranair.

Our policy is to work for a solution of Iranair's difficulties, but if this proves impossible, we would prefer British participation or a merger with Eagle rather than see the field left open for Soviet exploitation.

A complicating factor is the desire of the Iranian Government to encourage development of competing airlines, a desire which we cannot oppose in the light of our general policy on such matters.

ETHIOPIA

TWA has a contract with the Ethiopian Government for the operation of Ethiopian Air Lines, an Ethiopian Government corporation. There has been increasing friction in recent months between TWA and the Ethiopian Government, the latter accusing the former of inefficient management and of excessive maintenance charges on Ethiopian Air Line planes in Cairo. In this connection, the Ethiopian Government in a rather unnecessary and high-handed fashion recently forced the ouster of the general manager of Ethiopian Air Lines, a TWA employee, and his replacement by another TWA employee.

We are highly interested in seeing TWA's participation in Ethiopian Air Lines continue for the following reasons: (1) this is the only airline operation in Eastern Africa in which a United States company has an interest; and (2) we are convinced that the airline would deteriorate rapidly in the event that TWA withdrew its participation.

LIBYA

During the war, ATC maintained and operated Mellaha (Wheelus) Airfield, near Tripoli, in connection with its North African routes. Early in 1947, by an exchange of letters with the British Foreign Office, the United States was granted certain military transit rights at Mellaha. In March of this year, the Army decided to withdraw its troops from Mellaha and this was accomplished by the middle of the year.

With the withdrawal of the Army, the facilities at Mellaha were declared surplus and OFLC began negotiations for their disposal. On September 18, a telegram was received from Rome indicated the FLC in Paris was negotiating with British European Aviation Corporation regarding the sale of the installations at the field.

In view of the changed international situation, the Department has instructed FLC to delay negotiations indefinitely until the interested departments of this Government had had an opportunity to review their ideas on the future of Mellaha.

AMERICAN ECONOMIC INTERESTS IN THE MIDDLE EAST

Except for the large and important American interests participating in the development of Middle Eastern oil resources, American economic interests in the area are not particularly outstanding. Trade relations are of some importance. Although the Middle East generally (excluding India in the present connection) does not account for a major share of U.S. import and export trade, the trade is far from negligible. The Middle East is the source of some fairly important specialty requirements for U.S. import trade such as dates, figs, coffee (specialty grades), long-staple cotton and oriental rugs. The expansion of these imports would provide a most useful source of increased dollar exchange for the area.

This question of dollar exchange is fundamentally part and parcel of the very large and intricate problem of the U.S. dollar balance of payments in international relations, as a whole. This problem appears in the Near East particularly in the form of a dollar-sterling exchange problem (see discussion of this subject under The Dollar Sterling Problem). For instance the Yemen might acquire desired dollar exchange by direct [redacted] trade to the U.S. instead of through Aden. Unless, however, this were effected in connection with an increase in U.S. imports of Yemen coffee the result would be to intensify somewhat the difficulty of the British sterling - dollar problem. Nevertheless in principle there is advantage to be seen in the development of direct trade relations whenever U.S. trade with the area concerned is of sufficient size and value to warrant.

The principal aspects of U.S. economic interest in the area are discussed below by individual countries.

SAUDI ARABIA

United States companies have invested some $150,000,000 in the development of Saudi Arabian oil, and this total will be expanded to approximately $400,000,000 during the next three years. In addition to investments in Saudi Arabian oil, United States interests have a half interest in the Saudi Arabian Mining Syndicate, which produces about $1,000,000 worth of gold a year.

The United States Army is operating the Dhahran Airport, and is running a training program to teach the Saudi Arabians to operate the airport.

TWA round-the-world air service lands at Dhahran and TWA operates the Saudi Arabian Airlines under a contract with the Saudi Arabian Government.

The American firm of International Bechtel Incorporated is installing electric power at Riyadh.

Mackay Radio is setting up a station at Jidda.

A group of American agriculturalists is running a model farm at Al Kharj in central Arabia for the Saudi Arabian Government.

The King is convinced of the wisdom of developing his country, and it is expected that American firms will take a large part in this. Among projects on which American companies are working, but which are mostly in the planning stage, are a deep water pier at Dammam on the Persian Gulf, a railroad from Dammam to Riyadh, a chain of airports and the installation of public utilities in the main Saudi Arabian cities, a railroad from Mecca to Jidda to Medina, a modern highway network, the erection of a series of hospitals, and the establishment of a school system on the oil coast.

It is hoped that the Government of Saudi Arabia can be persuaded to take on an economic adviser to guid this expansion as well as an aviation adviser. Our main interest is to make sure that the oil of Saudi Arabia continues available to us and our friends, and that the economic development of the country proceeds along sound lines. Such development should result in a stable internal political situation and a rise in the general standard of living, which will be a large security factor in protecting the country from communist penetration. In the furtherance of this goal, the Export-Import Bank has loaned $10,000,000 to Saudi Arabia to aid reconversion to peacetime pursuits and is prepared to loan an additional $15,000,000 toward some of the projects mentioned above.

YEMEN

Yemen has only just begun to open her borders to travel and development. It appears likely that an American oil company will secure a concession there.

The Government of Yemen has engaged the International Bank of Washington (not the World Bank) to act as its financial agent.

Various American importers will probably begin direct imports of Yemen coffee, hides, skins, etc., in the near future.

The Government of Yemen has asked this Government for help in an agricultural mission, which will probably have to wait for the passing of the Mundt Bill. It is also interested in having American assistance in developing its aviation, medicine, transportation, and harbors.

BAHREIN

Bahrein Petroleum Company, although incorporated in Canada, is an American-owned company which is doing a splendid job developing the oil resources of that island and refining some oil from the mainland in addition.

KUWAIT

Gulf Oil Company has a half interest in Kuwait, and it would seem that this Sheikhdom is now due for rapid economic development.

TRUCIAL COAST

American companies own a quarter interest in Petroleum Development Limited, which has the oil rights for Qatar, the Trucial Coast, and Oman and Muscat. This company has been very slow in developing these regions and it would seem desirable for the British to be convinced of the wisdom of either developing these areas, or e lse relinquishing them to a company which would be willing to do so.

IRAQ

United States economic interests in Iraq are moderate but are susceptible of gradual development as the primitive character of Iraq's economy is modernized. The principal U.S. economic interest is petroleum through the American participation in the Iraq Petroleum Company. We desire this company to develop southern as well as northern Iraq, and it is proceeding to do so. The United States is a substantial importer of dates from Iraq. United States participation in the proposed irrigation development scheme for the Euphrates-Tigris Valley is discussed elsewhere.

EGYPT

The substantial amount of inconvertible sterling, £ 450,000,000, accummulated in Egyptian hands as a result of British military expenditures during the war, would of course provide basis for large purchases of U.S. products if the sterling were convertible to dollars and if the manufactured products desired were available from the U.S. Obviously, however, the sterling is not and cannot become rapidly convertible. Large expansion of exports of manufactures from the U.S. is limited by present supply conditions. The current pressure of demand upon U.S. export sources is unquestionably in considerable degree a temporary phenomenon which will largely diminish when competing British and continental European industries are again able to provide competitive supplies as a result of

European recovery. In the meantime the inability of Egypt to spend its wartime sterling accumulations must to a considerable degree be regarded as Egypt's participation in the post war economic difficulties of the world. Whether relief should be sought by any special means of supplying dollars or U.S. products, e.g. U.S. Import-Export Bank loans, should therefore be tested against the reality and urgency of actual Egyptian need for the products in question.

An avenue of useful relief to Egyptian dollar difficulties may be sought through the possible expansion of the import quota limitations on long-staple cotton which by statute it is the responsibility of the U.S. Tariff Commission to administer.

SYRIA AND LEBANON

U.S. economic interests in both Syria and Lebanon are small and it is doubted that they are susceptible of extensive development. The exception is the construction of the Arabian-American Oil Company's pipeline across Syria and the establishment of the terminus and possibly a refinery in southern Lebanon. This should provide substantial dollar income to the two countries.

IRAN

If the Iranian Government proceeds with its projects for internal development, it is probable that the United States will have a substantial share in furnishing engineering services, machinery, steel, etc. There are no large U.S. investments in Iran.

BRITISH ECONOMIC INTERESTS IN THE MIDDLE EAST

If endeavor is made to assess the influences which seem likely to bear upon any decisions by the British Government as to the extent to which they will endeavor to maintain a position of influence in the Middle East, consideration naturally must be given to British economic interests in the area. Their outstanding interest is of course in the Anglo-Iranian Oil Company operations in southern Iran. The size of this operation and its importance in the supply of British petroleum requirements is such as to make it difficult to believe that any British Government would willingly leave its interests there (or in the nearby oil producing areas on the Persian Gulf) unprotected.

In addition to petroleum interests, however, the United Kingdom has many other economic interests of miscellaneous nature in the area. These include, banking, insurance, aviation, shipping, construction, and mining interests, all of which can be considered as serving to some extent to anchor British interests in the area. How strong these anchors are it is of course, impossible to estimate. British service in banking, insurance, shipping, ship agencies, etc., are predominant over all the entire Arab area with the exception of Lebanon and Syria. As the historic conditions which favored British financial, commercial and other developments in the area change, the influence of these interests as anchors may be considerably altered.

The principal interests of this nature are outlined country by country in the following paragraphs.

IRAN

Far and away the greatest British economic interest in the entire Middle East are the Anglo-Iranian Oil Company operations in southern Iran. This company has the world's largest refinery, located at Abadan. Fifty-two percent of the stock in the company is owned by the British Government. Apart from its obvious strategic importance as a source of petroleum for Britian, the company is enormously profitable, paying annual dividends of as much as 30 percent on its capital stock.

Aside from the AIOC, the only British economic interest of importance in Iran is the Imperial Bank of Iran, which is a highly profitable British-owned and operated institution, having a number of branches in different parts of the country. Its Charter is about to expire, and the Iranian Government may raise difficulties with regard to its renewal.

GREECE

There are no major British economic interests in Greece, although British capital has been invested in the country to some extent. Britain is a purchaser of tobacco, olive oil, currants, etc., and Britain still has claims for payment of substantial loans made to Greece prior to 1941.

TOP SECRET

TURKEY

British economic interests in Turkey are small.

IRAQ

British trade, commerce, banking, aviation, etc., with and in Iraq, developed over an extended period of time, are important and profitable. The 47.5 percent participation of the British in the petroleum resources of Iraq are of very great importance.

SAUDI ARABIA

The main British economic interests in Saudi Arabia are as follows: They own half of the Saudi Arabian Mining Syndicate. The Syndicate will probably expand slightly. Gellatly Hankey, with headquarters at Jidda, is a large trading and construction firm, and one of the two banks in Arabia. Through Gellatly Hankey, the British finance a part of the pilgrimage. Gellatly Hankey is also constructing the new water supply for Jidda. BOAC flies down both coasts of Saudi Arabia, and Cable and Wireless, Limited, provides communications with the outside world. With better transportation facilities, the pilgrimage should expand in size, and require greater financial assistance.

Compared to the dynamic American expansion in and around Dhahran, these activities are rather small. They are, however, valuable contributions to Saudi Arabian economy, and profitable to Great Britian. All indications suggest that Saudi Arabia is headed for substantial economic development, and it is desirable that the British remain economically active in the country and even expand their participation, so long as this is not on the basis of an economic sphere of influence.

YEMEN

Britain has tended to keep Yemen foreign trade bottled up behind Aden. This situation should be corrected, perhaps by the development of a Yemeni port on the Red Sea. Once the British have settled the boundary dispute between Yemen and the Aden Protectorate, it is reasonable to expect that they will participate in the anticipated economic development of Yemen.

OTHER ARAB STATES ON THE PERSIAN GULF

The economic development of Bahrein is being guided by the British along lines which may well become a model for other neighboring areas. The monopoly of the Cable and Wireless Limited has now been broken and we hope that this firm will now provide better service.

In Kuwait, Qatar, the Trucial Coast, Muscat, Oman, and the Hadhramaut, British influence has largely been a "dead hand." The world demand for oil, plus American representation in the oil companies involved, is beginning to bring about activity in Kuwait and Qatar. We hope that competition from American capital and enterprise will stir the British into greater economic activity in these outlying areas.

SYRIA AND LEBANON

The economic ties of Syria and Lebanon have been predominantly with France rather than Great Britain.

EGYPT

Historically British finance and British trade have been instrumental in the development of Egyptian economy. These activities have benefited both countries. Maintenance of British security measures in the Near East area have helped to provide stable conditions under which the primary products of Egypt can move into international trade in exchange for the finished products of the world. The United Kingdom is still Egypt's best customer for its main crop, cotton, and its chief supplier of chemicals, iron and steel products, machinery and a large variety of other finished manufactures.

British engineering skills and equipment have greatly advanced the construction in the Nile Valley of important dams, barrages and other engineering works. The presence of British troops in the Suez Canal Zone area, particularly if limited to numbers provided for in the 1936 Treaty, will not be of specific economic value to the UK except insofar as they contribute to the stability of the country and the area, and to the demand for British goods. On the other hand, viewed objectively, because of the intense Egyptian nationalism their removal would probably contribute to the strengthening of economic ties between the two countries and an improvement in their commercial relations. The normal operation of British companies and businesses in Egypt would be greatly facilitated if the political onus of British troops in Egypt were removed.

TOP SECRET

ORGANIZED ANGLO-AMERICAN COOPERATION TO HANDLE ECONOMIC PROBLEMS OF THE MIDDLE EAST

Some of the British officials in London who have been studying the question of Anglo-American cooperation in the Middle East, according to reports from the American Embassy in London, have favored the establishment of some formal Anglo-American organization in the area through which cooperation in economic matters would operate. Recent reports indicate that the views of others who favor informal cooperation are at present in the ascendant.

It is possible however that the idea of formally organized cooperation has not been entirely abandoned and may again be brought forward. Presumably any such proposal would be patterned along the lines of the British Middle East Office in Cairo "with its staff of agricultural, labor, health and statistical advisers whose services are at the disposal of any of the Middle Eastern countries who wish to consult them". (Quoted from Mr. Bevin's memorandum to the Secretary of State of March 1947).

Organized cooperation with the British in the area had a precedent in the Middle East Supply Center (MESC), which was created during the war period for the primary purposes of conserving British and American shipping and supplies and at the same time assuring that the peoples of the area were provided with basic essentials. The control functions were supplemented by important advisory and technical services designed to improve the economies of the several Middle Eastern countries and to contribute to their self-sufficiency. While the MESC's operations as a wartime agency were highly successful, it is true that most if not all of the countries looked upon the organization as restrictive, and evidenced little appreciation for the development work that was done. It is primarily for this reason that British proposals for continuation of the advisory services were rejected by the United States.

There are a number of objections to creation of an official central Anglo-American organization for economic cooperation in the Middle East. It would be difficult to agree to the creation of such an Anglo-American agency while at the same time sustaining our objection to the creation of an Economic Commission for the Middle East under United Nations auspices, as proposed in the resolution recently introduced by Egypt in General Assembly. The creation of an Anglo-American institution of this nature would probably be received with little enthusiasm, even perhaps with resentment by the countries of the area, to whom it might very well appear to be effort to impose Anglo-American ideas and purposes upon them. Moreover, the idea of establishing a central United States agency in a single Middle Eastern location such as Cairo, to deal with economic problems for the whole area, has been considered in the Department and rejected in favor of economic coordination in Washington and direct relations with the various United States Missions in the area.

It is believed that British and American economic objectives in the area can best be served through continuation and development of free and informal collaboration between the representatives of the two Governments rather than through any formal organization.

PROPOSED ESTABLISHMENT OF AN ECONOMIC COMMITTEE FOR THE NEAR EAST BY THE UNITED NATIONS ORGANIZATION

The establishment under United Nations auspices of the Economic Committee for Europe (ECE) and of the Economic Committee for the Far East (ECAFE) has lead to proposals that there be established a corresponding Economic Committee for the Middle East (ECME). Within the last few days this has crystallized in a resolution introduced in the General Assembly by Egypt. This resolution invites the ECOSOC to study the establishment of an Economic Commission for the Middle East (See Annex 17 for text of resolution).

Advance notice of Egyptian intention to introduce such resolution was given to the American Embassy in Cairo early in September 1947. The Department was accordingly able to formulate its position on the subject. This position, which has not been communicated to any other Governments, is set forth in a "Position Paper of September 25, 1947" (Annex 18).

Briefly our position is to discourage the establishment of such a Commission at this time and to recommend referral of specific proposals for such establishment to the Economic and Social Council for consideration, preferably without prior discussion in or recommendation by the General Assembly as to the merits of the proposal.

The reasons for our position are in summary as follows: that there are no reconstruction problems in the area comparable to those of the other areas; that the economies of the countries involved are not complementary to each other; that previous attempts for creation of joint economic machinery in the area have failed because of lack of economic justification (a proposed Near Eastern Agricultural Body (NEAB) was never developed, and the Economic Committee of the Arab League has not been very active); and that no great support for the proposed Commission is expected unless the question becomes one of prestige.

In addition, the United States position takes account of serious political difficulties involved, including: the encouragement of the USSR to take a hand in the area through membership of such a Commission; the consequent embarrassment of Turkey; the uncertain development of the Palestine situation; a possible French claim to membership which would be likely to produce friction with Syria and Lebanon; lack of clarity as to the Iranian position; and the problem of Indian membership, India being also a member of the Economic Committee for the Far East.